

May 5, 2016

The Race Is On: Nevada and New Jersey Scramble to Lead the Evolving Relationship between Gambling and eSports

By Dennis Gutwald, Brownstein of counsel and Seth Schorr, CEO of Fifth Street Gaming and chairman of Las Vegas' Downtown Grand Hotel & Casino

For the last several years, eSports contests have been filling arenas throughout the world. eSports viewership and associated cash prizes now rival those of professional sports. Top teams win millions of dollars in a single season. Perhaps most importantly from a gambling perspective, the games associated with eSports are played by millennials, that big demographic group that isn't particularly attracted to the traditional gaming devices currently found on casinos floors.

Nevada and New Jersey are scrambling to take advantage of the crossover potential between eSports and the gambling industry, with both states demonstrating different strategies in their bids for this market.

Nevada

eSports is already profitable and is growing exponentially. That growth has brought it to Nevada.

The 20-year-old Evolution Championship Series (EVO) has been holding tournaments in Las Vegas since 2005, which last year brought a reported 17,000 contestants and spectators to Paris Hotel & Casino.

Riot Games, together with MGM, recently held League of Legends Championship Series matches at the Mandalay Bay in Las Vegas in April 2016. This event attracted 6,000 fans to Mandalay Bay, with the largest contingent being millennials.

Ourgames International Holdings Ltd., owners of the World Poker Tour, is exploring the building of a small eSports arena in Las Vegas where the paying public could compete against each other. Strip casino resorts would be a natural location for such an arena.

Las Vegas' Downtown Grand Hotel & Casino has already established a venue where patrons pay to engage in weekly eSports competitions for cash prizes. This, in turn, has led to the venue hosting events such as Wargaming.net regional finals for World of Tanks, which attracts large in-house audiences as well as tens of thousands of viewers online. Downtown Grand's experience has shown that patrons there for eSports inevitably migrated to its gaming operations and particularly its table games. It is also becoming a go-to location for eSports teams, indicating that with this strategy, the hotel could reach even farther into this market in the future.

The reach of these efforts could depend on state law. Nevada regulators and the gaming industry enthusiastically encouraged the development of skill-based gambling games with the first regulations to foster development of such games. We have not only seen major slot manufacturers begin to develop skill-based games, but this initiative by the regulators has also encouraged startups such as Gamblit Gaming and GameCO to enter into the space with a new perspective and fresh ideas on games.

Nevada offers many attractions for eSports companies. Las Vegas' global brand recognition fits nicely with the global brand recognition eSports games are attaining. Nevada's gaming regulations, with a little

May 5, 2016

work, could be modified so sports books can take bets on eSports, making competitions even more like traditional sporting events. Nevada has resort hotels and arenas that can easily host a multitude of eSports events with the amenities to attract and accommodate the large influx of tourists who come to participate. Nevada's tourist industry provides eSports companies with the opportunity to enhance brand recognition that few other cities can match.

New Jersey

While eSports presence in Nevada is growing, New Jersey seems poised to take the lead in combining gambling with eSports games.

The growth of arena competition is merely a small reflection of eSports' expanding online popularity. The vast amount of revenue from eSports will continue to be made online. eSports games are purchased and played online and the number of eSports free-to-play and mobile device applications is growing rapidly. Inevitably, the industry has a laser focus on its online gaming market and that focus, at least for larger companies, is likely to extend to online eSports gambling games that can fully complement their products.

New Jersey already has online gaming that is to some degree self-supporting. That online gaming allows all kinds of gambling rather than being restricted to poker like Nevada. New Jersey has adopted temporary regulations for skill-based games. With those regulations, eSports games can be offered as part of New Jersey's online gambling games. The introduction of eSports games likely will increase New Jersey's online gaming revenue significantly. There is already an illegal market for such games on the internet and New Jersey has the path in place to offer those games legally.

And the winner is ...

While both states each offer its own set of advantages, New Jersey has a big head start for making the marriage of gambling and eSports to pay immediately. With its online gaming, it has ensured the games will be placed where the players already go to play them, online. The race is on—and the payoff for the companies involved in this evolving segment of the industry will be huge.

Dennis C. Gutwald

Of Counsel

dgutwald@bhfs.com

702.464.7014

This document is intended to provide you with general information regarding eSports gaming. The contents of this document are not intended to provide specific legal advice. If you have any questions about the contents of this document or if you need legal advice as to an issue, please contact the attorney listed or your regular Brownstein Hyatt Farber Schreck, LLP attorney. This communication may be considered advertising in some jurisdictions.