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# U.S. Internet Gaming: A Legislative And Market Update

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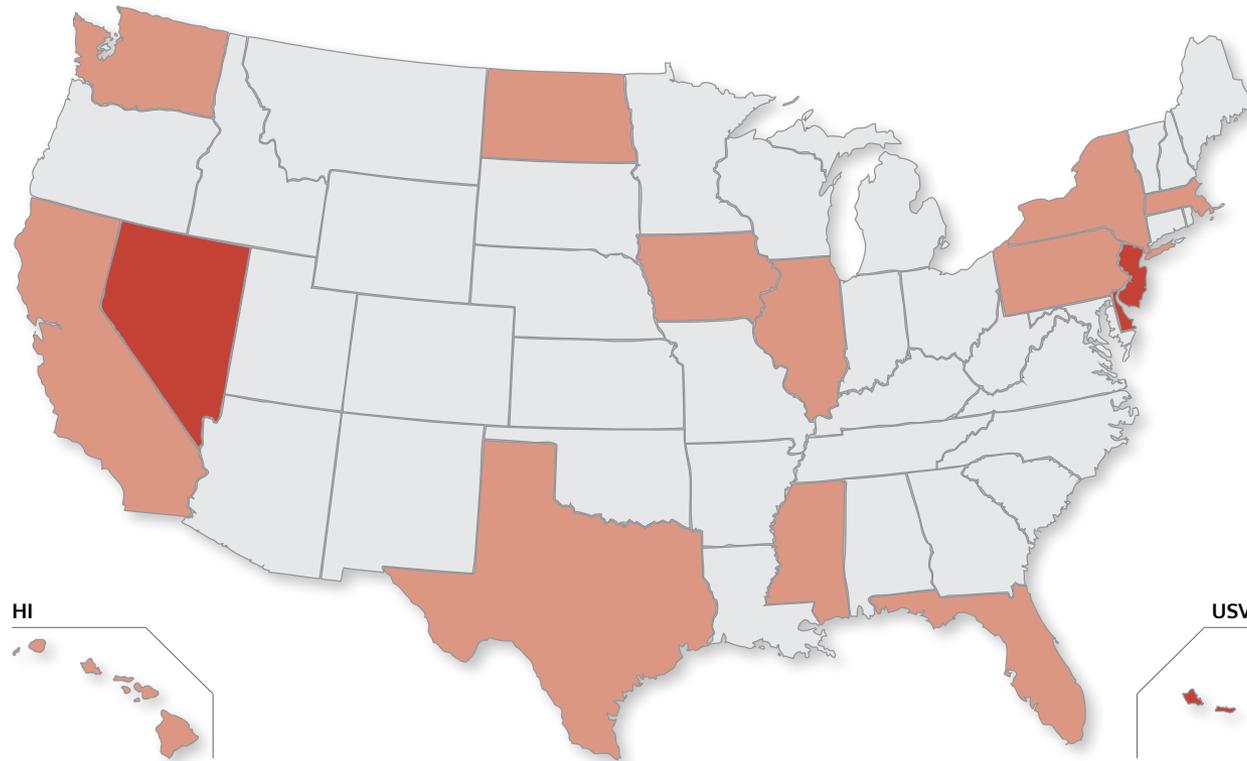
New York Senate Racing, Gaming And Wagering Committee  
A Hearing To Discuss The Future Of Internet Poker In New York State  
9 September 2015

GamblingCompliance



## States That Considered Internet Gaming Legislation: 2001-2015YTD

### Exhibit A



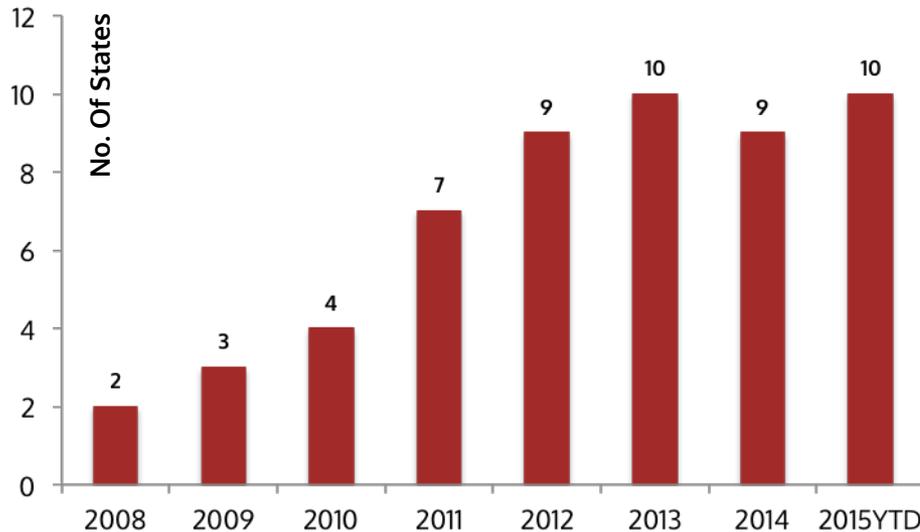
- Considered Internet Gaming Legislation
- Enacted Internet Gaming Legislation

In the 2001-2015YTD period, approximately **16 states** have considered legislation that would authorize Internet gaming or Internet poker, only. In that 15-year span, only **Nevada** (2001), the **U.S. Virgin Islands** (2001), **Delaware** (2012) and **New Jersey** (2013) have enacted such legislation. In the 2015-2020 period, we expect at least two additional states to enact such legislation. Our preliminary 2015-2017 Internet gaming legislative forecasts are set out in Exhibit I.



## No. Of States Considering Internet Gaming Legislation: 2008-2015YTD

### Exhibit B



Between 2008 and 2013, the number of states considering legislation that would legalize Internet gaming or Internet poker, only, **increased from two to 10**. That increase was driven largely by the state budget-deficit crisis and the 2011 reinterpretation of the federal Wire Act. Since 2013, the number of states considering such legislation has **settled at between nine and 10**. Of note, California has considered legislation that would authorize Internet gaming or Internet poker, only, in each year since 2008.



## Case Study I: U.S. Internet Gaming Operator Licensure Restrictions

### Exhibit C

State	State Lottery	Terrestrial Gaming Incumbents	Open
DE*	Racinos		
NV*		Casinos	
NJ*		Casinos	
USVI*			Unrestricted
CA†	Lottery	Tribal Casinos, Card Rooms, Racetracks	
HI†			
FL†			Card Rooms
IA†			Casinos
IL†			Casinos
MS†			Casinos
ND†			
NY†			Unrestricted
PA†		Casinos	
WA†		Card Rooms, Tribal Casinos	

\* Internet Gaming Legal

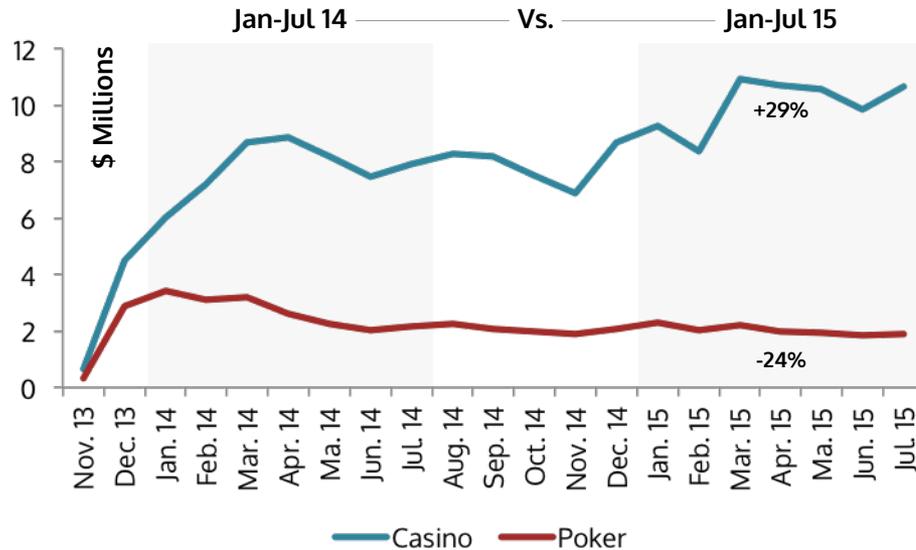
† Considering Internet Gaming Legalization

A key policy question in New York will be how best to structure provisions governing Internet gaming operator licensure — that is, whether to limit such licensure to the state’s incumbent terrestrial gaming entities, and/or to open such licensure to entities that do not maintain a terrestrial gaming presence in the state. As currently drafted, **S. 5302** would open Internet gaming operator licensure to up to 10 entities, but it would not require that those entities maintain a terrestrial gaming presence in the state.



## Case Study II: Performance Of New Jersey Internet Poker Vs. Internet Casino

### Exhibit D(a)



Another key policy question in New York will be whether to legalize Internet poker, only, or to legalize additional forms of Internet casino-style gaming (as currently drafted, **S. 5302** would authorize Internet poker, only). In our view, it is worth noting the performance of the two product verticals in New Jersey. There, the Internet poker vertical has **vastly underperformed**, from a revenue-growth perspective, relative to the Internet casino-style gaming vertical.

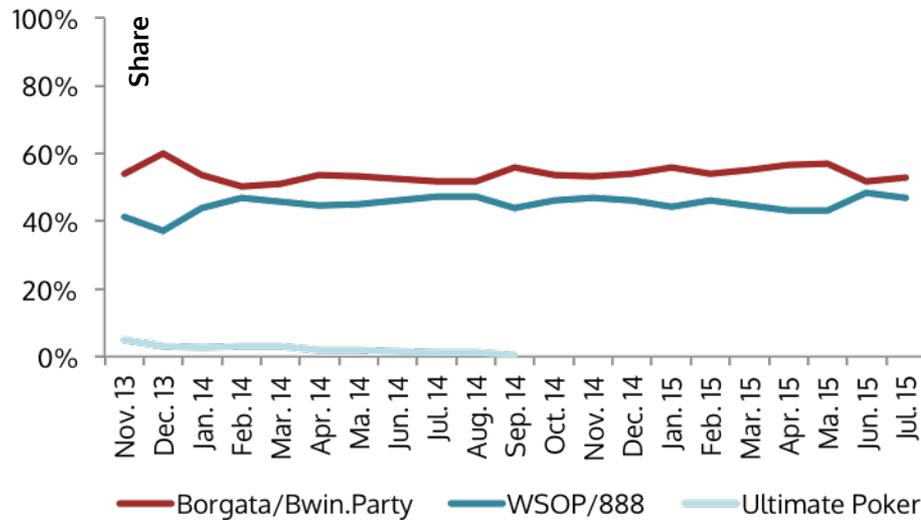
Period	Poker Revenue	Casino Revenue
2014 (Jan-Jul)	\$18.8	\$54.2
2015 (Jan-Jul)	\$14.2	\$70.2
<b>Year-On-Year Growth</b>	<b>-24.5%</b>	<b>+29.4%</b>

All figures in \$ millions except where indicated.



## Case Study II Con't: Distribution Of New Jersey Internet Poker Market Shares

### Exhibit D(b)



Operators	2014 Avg. Mkt. Share	2015 Avg. Mkt. Share
Borgata/Bwin.Party*	52.8%	54.8%
WSOP/888†	45.8%	45.2%
Ultimate Poker°	1.4%	N/A
<b>Total</b>	<b>100%</b>	<b>100%</b>

\* Borgata and Bwin.Party results are consolidated under the Borgata Internet gaming permit.

† WSOP and 888 results are consolidated under the Caesars Interactive NJ Internet gaming permit.

° Ultimate Poker results were formerly consolidated under the Trump Taj Mahal Internet gaming permit.

As drafted, **S. 5302** would open a competitive bidding process for up to 10 Internet poker licenses; however, it is doubtful that the New York market could sustain 10 operators. Looking across to New Jersey, where the adult Internet population\* is roughly half that of New York, the market, amid flat-to-negative revenue growth, has been able to sustain only **four** Internet poker operators. A fifth Internet poker operator, citing the challenging operating environment, closed in September 2014.

\* The adult Internet population of New York is approximately 12.19m, and the adult Internet population of New Jersey is roughly 5.97m.



## Estimated New York Internet Poker Tax Revenue: Sensitivity Analysis

### Exhibit E

Rate	\$50	\$75	\$100	\$125	\$150	\$175	\$200	\$225	\$250	\$275
5%	\$2.5	\$3.7	\$5	\$6.2	\$7.5	\$8.7	\$10	\$11.2	\$12.5	\$13.7
10%	\$5	\$7.5	\$10	\$12.5	\$15	\$17.5	\$20	\$22.5	\$25	\$27.5
12.5%	\$6.2	\$9.3	\$12.5	\$15.6	\$18.7	\$21.8	\$25	\$28.1	\$31.2	\$34.3
15%†	\$7.5	\$11.2	\$15	\$18.7	\$22.5	\$26.2	\$30	\$33.7	\$37.5	\$41.2
17.5%	\$8.7	\$13.1	\$17.5	\$21.8	\$26.2	\$30.6	\$35	\$39.3	\$43.7	\$48.1
20%	\$10	\$15	\$20	\$25	\$30	\$35	\$40	\$45	\$50	\$55

All figures in \$ millions.

† Tax rate as proposed in S. 5302.

Using our base-case Internet poker revenue estimates, and applying a **15 percent tax rate** to those estimates, New York would capture Internet poker tax revenue\* of between **\$15m and \$19m** in the market's first full year of operations, rising to between **\$22m and \$27m** in its fourth full year of operations.

Rate	Internet Gaming Legal			Considering Internet Gaming Legalization						
	USVI	NV*	NJ	NY†*	CA*	WA*	IL*	IA	MS	PA
	1.5%	6.75%	17.5%	15%	6.75%	9%	15%	23%	5%	32%

\* Tax rate applicable to Internet poker revenue, only.

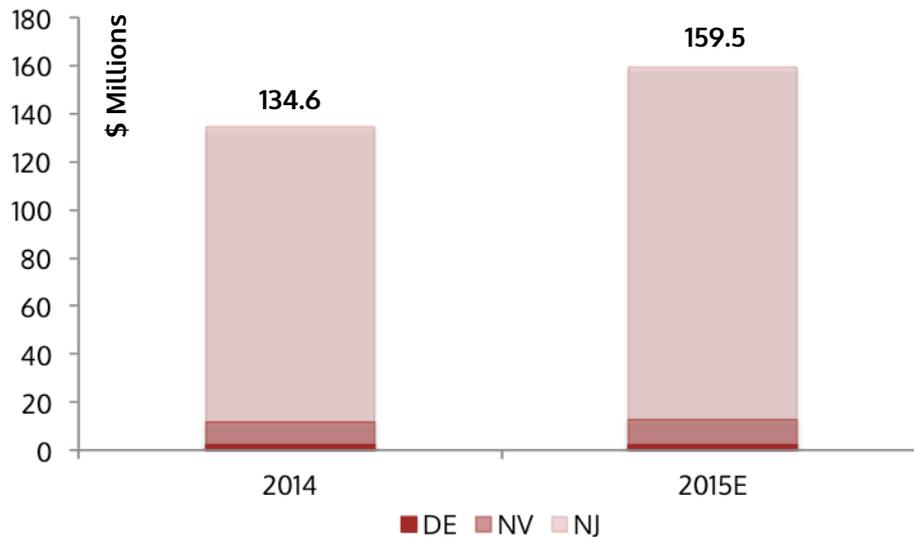
† Tax rate as proposed in S. 5302.

For perspective, U.S. states have implemented or proposed varying tax rates for Internet gaming revenue.



## U.S. Internet Gaming Revenue: 2014-2015E

### Exhibit F



Jurisdiction	2014	2015E
Delaware	2.09	2.23
Nevada	9.7	10.7
New Jersey	122.8	146.5
<b>Total</b>	<b>134.6</b>	<b>159.5</b>

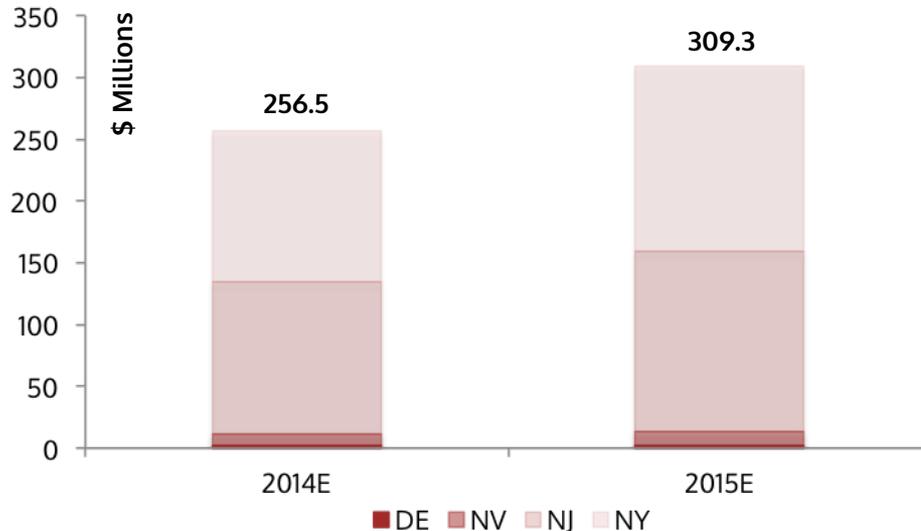
All figures in \$ millions.

In 2014, national Internet gaming revenue was approximately **\$134.6m**, with New Jersey accounting for roughly 91.2 percent of the national total. In 2015, we expect national Internet gaming revenue to rise to approximately **\$159.5m**, driven primarily by a 19.2 percent year-over-year increase in New Jersey Internet gaming revenue. Adding **New York** to the national mix on a pro-forma basis **changes the 2014 revenue result and our 2015 forecasts significantly**. See Exhibit G for further detail.



## Pro Forma U.S. Internet Gaming Revenue: 2014E-2015E

### Exhibit G



Jurisdiction	2014E	2015E
Delaware	2.09	2.23
Nevada	9.7	10.7
New Jersey	122.8	146.5
New York	122.0	149.9
<b>Total</b>	<b>256.5</b>	<b>309.3</b>

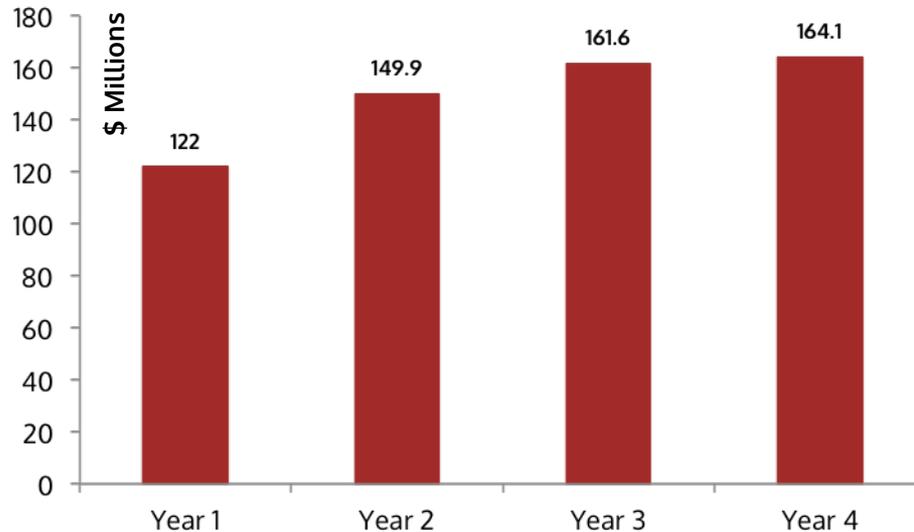
All figures in \$ millions.

Under a scenario in which **New York** launched Internet poker, only, on January 1, 2014, we estimate national Internet gaming revenue would have been approximately **\$256.5m** in 2014, rising to **\$309.3m** in 2015. In 2014, New York would have generated Internet poker revenue of **\$122.0m** and accounted for roughly 47.5 percent of that year's national total. In 2015, we would have expected New York to generate Internet poker revenue of **\$149.9m** and account for roughly 48.4 percent of the national total.



## Estimated New York Internet Poker Revenue: Year 1-Year 4

### Exhibit H

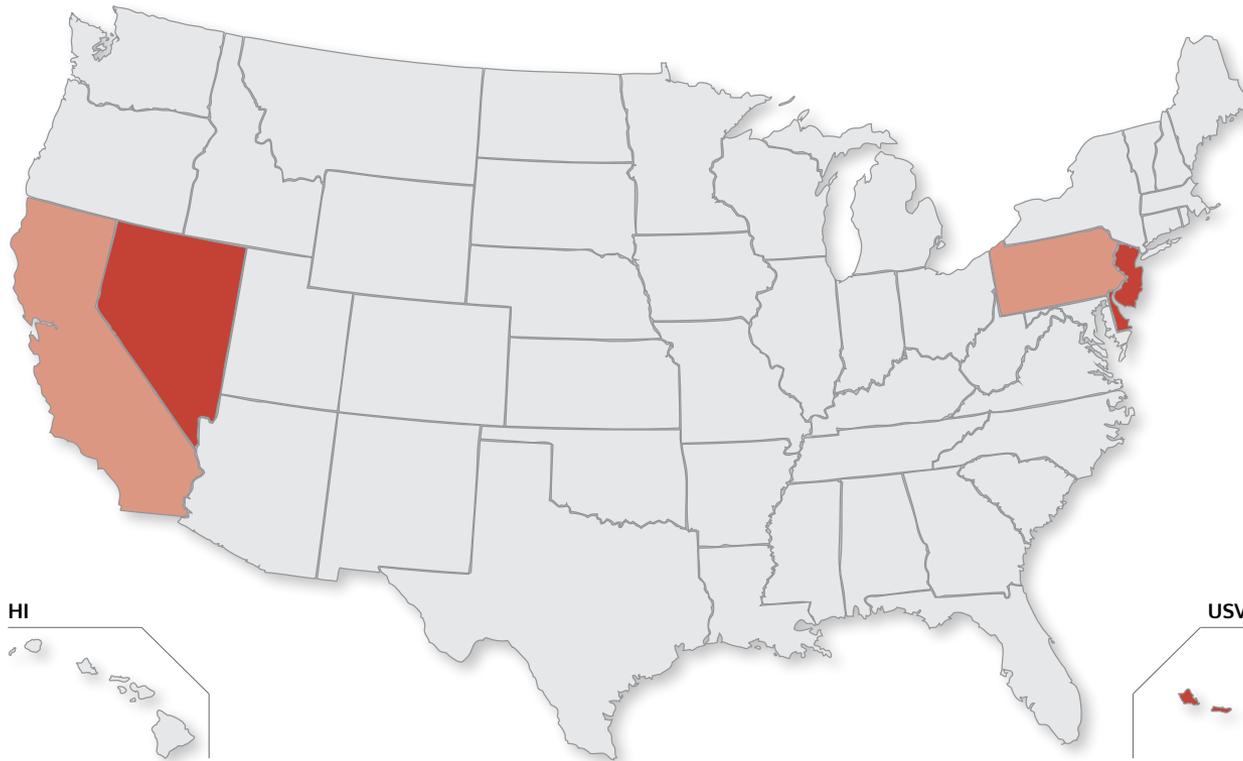


According to our estimates, the New York Internet poker market is expected to generate revenue of **\$122m** in its first full year of operation, rising to **\$164.1m** in its fourth full year of operation. Our base-case estimates assume that New York will not be as severely impacted by payment-processing issues as New Jersey, and that **PokerStars**, the world's largest Internet poker operator, will be a market participant from the outset.



## Wave Two Of U.S. Internet Gaming Legalization: 2015-2017

### Exhibit I



In the 2015-2017 period (Wave Two), we expect one of **California** or **Pennsylvania** or to legalize Internet gaming or Internet poker, only. Further expansion, although difficult to forecast, is expected to remain concentrated in the Northeastern/Mid-Atlantic region.

- Wave 1: **Nevada** (2001); **U.S. Virgin Islands** (2001); **Delaware** (2012); **New Jersey** (2013)
- Wave 2: **Pennsylvania** (2015-2016); **California** (2016-2017)



## Key Takeaways

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1. In the 2001-2015YTD period, approximately **16 states** have considered legislation that would authorize Internet gaming or Internet poker, only. In that 15-year span, only **Nevada** (2001), the **U.S. Virgin Islands** (2001), **Delaware** (2012) and **New Jersey** (2013) have enacted such legislation.

2. A key policy question in New York will be how best to structure provisions governing Internet gaming operator licensure — that is, whether to limit such licensure to the state's incumbent terrestrial gaming entities, and/or to open such licensure to entities that do not maintain a terrestrial gaming presence in the state. As currently drafted, **S. 5302** would open Internet gaming operator licensure to up to 10 entities, but it would not require that those entities maintain a terrestrial gaming presence in the state.

3. Another key policy question in New York will be whether to legalize Internet poker, only, or to legalize additional forms of Internet casino-style

gaming. Looking across to New Jersey, the Internet poker product vertical has **vastly underperformed** relative to the Internet casino-style gaming vertical.

4. We expect the New York Internet poker market to generate estimated revenue of **\$122m** in its first full year of operations, rising to **\$164.1m** in its fourth full year of operations. Further, using Internet poker revenue estimates, and applying a **15 percent tax rate** to those estimates, New York would capture tax revenue of between **\$15m and \$19m** in the market's first full year of operations, rising to between **\$22m and \$27m** in its fourth full year of operations.

5. In the 2015-2017 period, we expect one of **California** or **Pennsylvania** to legalize Internet gaming or Internet poker, only. Further Internet gaming expansion, although difficult to forecast, is expected to remain concentrated in the Northeastern/Mid-Atlantic region.





## Delaware: Internet Gaming Overview

### Appendix 1

An Internet gaming bill, **HB333**, was enacted in June 2012. It authorized the Delaware Lottery, in conjunction with the three racetrack casinos it oversees, to offer so-called "Internet lottery" via a single, lottery-controlled technology platform. Internet lottery, comprising intrastate and interstate Internet poker, as well as intrastate table games and slots, went live in November 2013 pursuant to final regulations that were promulgated in September 2013.

- Adult Internet population: **538k**
- No. of Internet gaming operators active: **1**
- 2014 Internet gaming revenue: **\$2.09m**
- 2015 Internet gaming revenue estimate: **\$2.23m**
- Enactment-to-Launch Timeline: **~17 Months**

#### Quick Facts

##### Games Allowed

Poker  
Table Games  
Slots



##### Operator Licensing

Open  
Terrestrial Incumbents  
State Lottery



##### Effective Tax Rate

33.9% Table Game Proceeds  
56.5% Video Lottery (Slot) Proceeds





## Nevada: Internet Gaming Overview

### Appendix 2

An Internet gaming bill, **AB466**, was enacted in June 2001. It authorized certain commercial casinos to offer so-called “interactive gaming.” Interactive gaming, comprising intrastate and interstate Internet poker, went live in April 2013 pursuant to final regulations that were promulgated in December 2011.

- Adult Internet population: **1.6m**
- No. of commercial casinos: **265**
- No. of Internet gaming operators active: **2**
- 2014 Internet gaming revenue: **\$9.7m**
- 2015 Internet gaming revenue estimate: **\$10.7m**
- Enactment-to-Launch Timeline: **~12 Years**

#### Quick Facts

##### Games Allowed

Poker  
Table Games  
Slots



##### Operator Licensing

Open  
Terrestrial Incumbents  
State Lottery



##### Tax Rate

6.75% of GGR





## New Jersey: Internet Gaming Overview

### Appendix 3

An Internet gaming bill, [A2578](#), was enacted in February 2013. It authorized commercial casinos to offer so-called "Internet gaming." Internet gaming, comprising intrastate Internet poker, table games and slots, went live in November 2013 pursuant to final regulations that were promulgated in September 2013.

- Adult Internet population: **5.9m**
- No. of commercial casinos: **8**
- No. of Internet gaming operators active: **6**
- 2014 Internet gaming revenue: **\$122.8m**
- 2015 Internet gaming revenue estimate: **\$146.5m**
- Enactment-to-Launch Timeline: **~9 Months**

#### Quick Facts

##### Games Allowed

- Poker ●
- Table Games ●
- Slots ●

##### Operator Licensing

- Open
- Terrestrial Incumbents ●
- State Lottery

##### Effective Tax Rate

- 17.5% of GGR ●



## U.S. Virgin Islands: Internet Gaming Overview

### Appendix 4

Internet gaming is legal in the U.S. Virgin Islands. An Internet gaming bill, **No. 24-0046**, was enacted in July 2001. It authorized licensees to offer Internet games approved by the U.S. Virgin Islands Casino Control Commission. As of this presentation, the Control Commission has yet to set out a list of such games. Of note, intrastate and interstate gaming have not gone live, despite the fact that final regulations were promulgated in November 2002.

#### Quick Facts

##### Games Allowed

Poker  
Table Games  
Slots

##### Operator Licensing

Open ●  
Terrestrial Incumbents  
State Lottery

##### Tax Rate

1.5% of GGR ●



## References

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**Exhibits A, B, I:** [Legislative Data] Gambling Compliance U.S. Internet Gambling Regulatory Tracker ([August 2015 Report](#)); [Legislative Forecasts] Gambling Compliance Research Services (August 2015 Internal Research).

**Exhibit C:** [Legislative Data] Gambling Compliance U.S. Internet Gambling Regulatory Tracker ([August 2015 Report](#)).

**Exhibit D(a)-(b):** [NJ Revenue And Market Shares Data] New Jersey Division of Gaming Enforcement ([July 2015 Press Release](#)).

**Exhibit E:** [NY Tax Revenue Estimates] Gambling Compliance Research Services (August 2015 Internal Research); [Enacted/Proposed Tax Rates] Gambling Compliance U.S. Internet Gambling Regulatory Tracker ([August 2015 Report](#)).

**Exhibits F-G:** [DE-NV-NJ Revenue Data And Estimates] State Regulatory Agencies and Gambling Compliance Research Services (July-August 2015); [Pro Forma DE-NV-NJ-NY Revenue Estimates] Gambling Compliance Research Services (August 2015 Internal Research).

**Exhibit H:** [NY Revenue Estimate] Gambling Compliance Research Services (August 2015 Internal Research).

**Reconciliation Of Proposed Tax Rates In Exhibit E:** [CA: 2015] Tax Rate in A.B. 9 (5%) + Tax Rate in A.B. 167 (8.5%) / 2 = 6.75%; [PA: 2015] Tax Rate in S.B. 900 (54%) + Tax Rate in H.B. 920 (28%) + Tax Rate in H.B. 649 (14%) / 3 = 32%; [IA: 2014] Tax Rate in S.S.B. 1068 = 23%; [NY: 2015] Tax Rate in S. 5302 = 15%; [MS: 2015] Tax Rate in H.B. 306 = 5%; [WA: 2015] Tax Rate in H.B. 1114 = 9%; and [IL: 2013] Tax Rate for so-called “fee-based games” in S.B. 1739 Amendment No. 1 = 15%.

**Appendices 1-4:** [Legislative Data] Gambling Compliance U.S. Internet Gambling Regulatory Tracker ([August 2015 Report](#)); [DE-NV-NJ Revenue Data] State Regulatory Agencies (August 2015); [DE-NV-NJ Revenue Estimates] Gambling Compliance Research Services (August 2015 Internal Research).



## Acknowledgments

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