

Sports Betting Vendor and Supplier Licensing: A Primer for Industry Newcomers

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Gaming Industry Alert

5.14.21

The explosive growth of sports betting in the United States has opened the door to a variety of new business opportunities for firms in the technology, hospitality, marketing, and financial services industries. It is critically important for companies in this new space to understand that state licensing and compliance requirements apply not only to sportsbook operators, but also to those doing business with sportsbook operators, such as vendors and suppliers. This article provides an overview of these vendor and supplier requirements, some of which may be surprising to those unfamiliar with the gaming industry.

State License Requirements

Most states that allow sports betting apply a hierarchical licensing scheme for sports betting operations, imposing an "operator license" requirement upon sportsbook operators, and either a "supplier license" or "vendor registration" requirement upon companies that offer goods and services to sportsbook operators. Vendor/supplier licensing requirements are fairly broad and, in some states, apply to virtually any company that does business with a licensed sportsbook operator. By way of example, in some states, even the law firms and advertising/media companies providing services to sportsbook operators must be licensed.

Several states have two distinct licenses for vendors and suppliers: a higher-level "supplier" (or "vendor major") license for providers whose services relate directly to sportsbook operations; and a lower-level "vendor registration" license for providers whose services do not directly affect sportsbook operations. Providers doing business in these states may find it challenging to characterize their services and to determine the appropriate license. This uncertainty may be magnified by "catch-all" provisions in the licensing rules that give regulators discretion to decide, on essentially a case-by-case basis, how a particular provider should be licensed.

The License Application Process

In order to obtain a vendor or supplier license, a provider must submit a license application and obtain approval from the state licensing agency. These license applications can be fairly involved, and providers who are unfamiliar with sports betting law may be caught off guard by the scope and extent of the disclosures applicants are required to make. State licensing laws typically give regulators the authority to grant exemptions to certain license requirements. However, this authority may be limited, so it is important that providers be prepared to comply with all application requirements. As part of application process, providers are often required to submit, among other things:

- a detailed overview of all pending lawsuits involving the company;
- an organizational chart identifying all company personnel involved in sports wagering operations, with corresponding job titles and descriptions;
- officer information packets, which require certain directors, officers and key employees to (i) make extensive personal disclosures concerning their financial and criminal history; and (ii) submit fingerprint cards for use in state police and/or FBI background checks; and

- copies of any contracts the applicant has executed with any licensed sportsbook operators.

Applicants in many states are also required to sign an "authorization to release information," which the state licensing agency can present to third parties to obtain documents or information about the applicant. These authorization forms are broad in scope and may not include carve-outs for privileged or confidential information. Additionally, to the extent the licensing agency obtains information from third parties and saves that information in its files, such information could be subject to public disclosure under the state's freedom of information act. As a result, there is a risk that an applicant's sensitive/proprietary information could be subject to public review. That said, state licensing agencies are often willing to provide advance notice to providers before disclosing potentially confidential information to the public and may even give the provider an opportunity to contest the disclosure.

Ongoing Compliance Obligations

After obtaining a vendor/supplier license, a provider may be subject to ongoing compliance obligations. For example, in some states, licensees are required to obtain approval from the state licensing agency prior to any sale of 5% or more of the licensee's (or its parent company's) voting stock. Licensees may also be required to supplement the disclosures made in license applications, providing updates to the state licensing agency concerning:

- any newly-executed agreement(s) for sports wagering-related services to be conducted in the state;
- any personnel changes affecting sports wagering-related operations; and
- any changes in the scope of the licensee's sports wagering-related operations in the state.

Failure to fulfill these obligations may result in a fine and/or the suspension or revocation of a license.

The attorneys in White and Williams' gaming practice have assisted clients in determining licensing obligations and obtaining required licenses in nearly every regulated U.S. betting market. If you have questions or would like more information, please contact Frank Bruno (brunof@whiteandwilliams.com; 215.864.6225) or Zachery B. Roth (rothz@whiteandwilliams.com; 215.864.6274).

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