
**MARYLAND LOTTERY and
GAMING CONTROL COMMISSION**

1800 Washington Blvd., Suite 330, Baltimore, Maryland 21230

COMMISSION REPORT



**In Re the Application of
SBOpco, LLC
d/b/a SuperBook**

**SPORTS WAGERING FACILITY OPERATOR LICENSE
APPLICANT**

License Applicant Number 2022-SW-43

Report Date: January 12, 2023

“Commission Presentation”

INTRODUCTION

Role of the Maryland Lottery and Gaming Control Commission (“Commission”)

The Commission is required to determine whether sports wagering applicants have proven, by clear and convincing evidence, that they meet the qualifications for licensure under the Sports Wagering Law. Requirements for qualification include: (1) applicant’s financial stability and integrity; (2) integrity of any financial backers related to the application; (3) applicant’s good character, honesty, and integrity; (4) applicant’s business ability; and (5) whether there are any mandatory disqualifiers that prevent the applicant from proving its qualifications by clear and convincing evidence. The Commission cannot issue a license unless it determines that the applicant is qualified.

The Licensing Division of the Maryland Lottery and Gaming Control Agency (“Agency”) conducts the required background investigation of an applicant’s qualifications. A report of the background investigation is provided to the Commission to assist it in determining whether the applicant described in this Report has proven that it is qualified.

The Executive Summary that will be summarized by Staff at the Commission meeting is a public document, which will be provided in the Commission packets, and is also available on the Agency website with other Commission meeting documents. If the applicant is found qualified, the Agency will work with the operator to ensure that all applicable requirements are met prior to issuing a license to operate.

Process

As a prerequisite to being eligible for a Sports Wagering Facility Operator License, an applicant must submit an Sports Wagering Facility Operator License Application to the Commission. The applicant must prove to the Commission, by clear and convincing evidence, that it meets the qualification criteria set forth in the Annotated Code of Maryland, State Gov't Article ("SG"), § 9-1E and the Commission's sports wagering regulations in Code of Maryland Regulations ("COMAR") 36.10 (collectively, "the Sports Wagering Law"). The Sports Wagering Law also includes and incorporates applicable licensing requirements in SG § 9-1A, and COMAR 36.03 (collectively, "the Gaming Law"), which establishes requirements for all casino-related licenses.

Specifically, the applicant must prove that it is qualified under SG § 9-1E-07(e) and COMAR 36.10.03.02 and 36.10.06.03 and not disqualified under SG § 9-1E-07(g)(1). An applicant must provide all information to the Commission that is necessary for a qualification determination as to the applicant, its principals, and its principal entities.

The Agency ("MLGCA," "we" or "our"), conducted a suitability background license investigation of SBOpco, LLC, d/b/a SuperBook ("SBOpco" or "Applicant), in connection with its application for a online sports wagering facility operator license.

You (the Commissioners) have been provided with the complete investigative report on the applicant. You have also received a copy of the public report that was in your packets and made available to everyone on the agency website. I will summarize the reports that have been given to you.

The Applicant

SBOpco, LLC was formed in Nevada on January 6, 2020, as a limited liability company and does business under the names of SuperBook and SuperBook Sports. SBOpco’s principal office is located at 3000 Paradise Road, Las Vegas, Nevada. The Applicant is a multi-state mobile and retail sports entertainment and gaming company that offers users opportunities to place sports wagers on its website, mobile applications, and at retail sportsbook facility.

INVESTIGATION INTO APPLICANT

Background

SBOpco operates its business under the SuperBook trade name through intellectual property owned by Westgate Las Vegas Resort, LLC, through subleasing agreements held with SuperBook USA, LLC in exchange for monthly license fees.

SBOpco has been granted sports wagering and gaming related licenses in Colorado, New Jersey, and Arizona, Tennessee, Iowa and Ohio. The Applicant is registered to do business in Maryland and has partnered with the Baltimore Orioles to promote its sportsbook. SBOpco has submitted a Sports Wagering Facility Operator License Application, a Mobile Sports Wagering License Application, and an Online Sports Wagering Operator License Application to the Commission.

Ownership of the Applicant

SBOpco, LLC is a private company and is authorized to issue 10 million member units consisting of 8,850,000 Class A shares; 1,050,000 Class B shares; and 100,000 Class C shares. The Class A shares represent the only voting class, the Class B and C shares are non-voting shares. Mr. Mark Lipparelli and Mr. Mark

Waltrip are managers of SBOpco and hold 47.1% and 52.9% of the Class A shares outstanding, respectively, which gives them control over the voting rights on a non-diluted basis.

Financial Review

Impact of the COVID-19 Pandemic and the Applicant's Response

The COVID-19 pandemic had a significant adverse impact on SBOpco's sales and other operating activities during calendar years 2020 and 2021 due to extensive shutdowns in the gaming industry. For example, the pandemic delayed the launch of the SBOpco's operations in Colorado and New Jersey by several months and many games were suspended, canceled or rescheduled due to COVID-19 outbreaks, which negatively impacted the Applicant's financial results. Despite these challenges, management believes its industry will grow rapidly in the next three to five years as more states pass legislation enabling mobile and retail sports betting.

Financial Performance

We conducted a detailed analysis of SBOpco's operating performance and financial condition for the period from January 6, 2020 to December 31, 2021, and the ten months ended October 31, 2022.

SBOpco, LLC's overall operating performance during its partial start-up year in 2020 was poor and did not improve during its first full-year of operating in 2021, nor during the first ten months of calendar year 2022. This was due in large part to the costs needed to expand into new markets in the United States and to compete to acquire and retain customers. Specifically, the Applicant experienced negative revenue annually and significant operating costs which resulted in operating losses

and net losses, as well as negative operating cash flows during these periods. However, the challenges faced by the Applicant are not uncommon given its start-up status as it focuses its resources on growing the business. For example, the negative revenue figures are a factor of aggressive welcome bonuses needed to attract and retain players and appear to be typical for a new company in the industry. The Applicant also incurs substantial amounts of upfront costs and fees that are required to support its efforts to expand its operational footprint. SBOpco is also highly leveraged at a high interest rate (10%) and incurs material interest expense as it has borrowed extensively from its credit lines to finance operating costs.

As a result of these challenges, the operating losses and net losses will continue for the foreseeable future until the Applicant can reduce new player incentives and marketing costs to gain profitability. Applicant's management advised that SBOpco doesn't expect to generate a profit until 2026 due to the costs and challenges associated with its plans to enter into additional jurisdictions.

Despite SBOpco's poor operating performance, the Applicant has significant resources and borrowing capacity available if needed and its auditors have not expressed any concerns with its operations or its ability to continue. Additionally, its credit reports did not contain any derogatory information and its financial ratios were generally comparable to those of competitors operating in its industry. However, given that the Applicant is in the early stages of establishing its footprint in various locations, there is a level of unpredictability in determining its success in the long-term. There are no overwhelming factors that would lead us to conclude that SBOpco, LLC is financially unsuitable for an Sports Wagering Facility Operator License, but a review of its operating performance is recommended annually.

Additionally, there are no concerns with licensure of Hannaford Investments, LLC as a Principal Entity.

FINDINGS

The Agency conducted a complete and thorough background investigation as authorized under the Sports Wagering Law by analyzing corporate records and documents; scrutinizing the business operations, practices, and transactions of SBOpco, LLC, d/b/a SuperBook and conducting interviews of key personnel, focusing on required qualification criteria involving integrity and financial stability. The Agency adhered to well-defined and approved investigative protocols in assembling the factual information incorporated in this report. The results of the investigation for the specific qualification criteria enunciated in SG 9-1E-07(e)(6), and COMAR 36.10.03.02 and 36.10.06.03, and not disqualified under SG § 9-1E-07(g)(1) are summarized as follows:

- 1) SBOpco, LLC was found to have financial stability, integrity and responsibility
- 2) There were no material issues involving the known financial backers
- 3) SBOpco, LLC possesses the requisite good character, honesty and integrity
- 4) SBOpco, LLC has sufficient business ability and experience
- 5) There were no potential disqualifying factors

Applicant and Principal Entities

The Applicant and its principal entity satisfy the applicable qualification criteria under SG § 9-1E-07(e)(6) and COMAR 36.10.03.02 and 36.10.06.03, and are not disqualified under COMAR 36.10.03.02C and SG § 9-1E-07(g)(1).

Principal Qualifiers

We identified the following individuals as principals of the Applicant. Each has submitted a Temporary Principal Employee License Application or Principal License Application to the Commission:

1. Peter Walsh – Chief Operating Officer (Temporary Principal License Application Pending);
2. Michael Marder – Principal Qualifier (Temporary Principal License Application Pending);
3. Robert J. Kornegay – VP Sports Operations, Risk EVP (Temporary Principal License Issued: 07/26/2022);
4. Mark Allen Waltrip – Managing Member (Principal License Issued: 08/08/2022);
5. Mark Star – Associate General Counsel and Director of Regulatory Compliance (Temporary Principal License Application Pending);
6. Joseph Wilson Leavitt – Chief Information Officer (Principal License Issued: 05/11/2022);
7. Linda Elizabeth Tobin – Director of Audit and Compliance (Principal License Issued: 09/23/2022);
8. Kristin Michelle Mackey – Head of Marketing (Principal License Issued: 09/23/2022);
9. Mark Allan Lipparelli – Chief Executive Officer (Principal License Application Pending).
10. Application Pending).

CONCLUSION AND RECOMMENDATIONS

The Applicant has submitted a completed Sports Wagering Facility Operator License Application, adequate proof of bond, and all required fees.

The Agency’s investigation has confirmed that the Applicant has sufficient financial resources and found no derogatory information regarding the Applicant’s qualifications. Based on the criteria in SSG § 9-1E-07(e)(6) and COMAR 36.10.03.02 and 36.10.06.03, we conclude that the Applicant has established by clear and convincing evidence the qualifications required for a Sports Wagering Facility Operator License.

Staff recommends that the Commission find SBOpco, LLC qualified for a Sports Wagering Facility Operator License based on the provisions of the Sports Wagering Law by clear and convincing evidence.

Staff recommends the Commission entertains motions to:

1. Find that SBOpco, LLC has established, by clear and convincing evidence, its qualifications for a Sports Wagering Facility Operator License; and
2. Delegate to Staff the authority to draft the Commission’s decision statement on the qualification of SBOpco, LLC for a Sports Wagering Facility Operator License.