

August 2014

# Player Contracts: Defining Expectations to Avoid Conflict

## League of Legends Article Series

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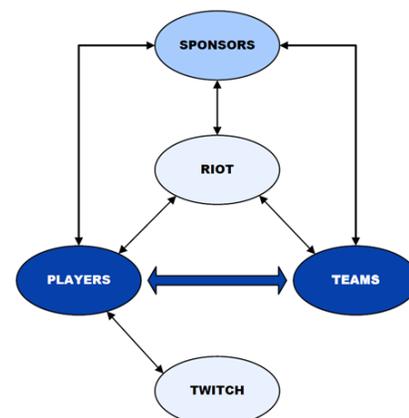
In the last few years, eSports have grown at an astonishing rate. For this growth to be sustained, the legal infrastructure must also grow. As with other professional sports, the most significant aspect of this infrastructure is the contracts the parties enter into with one another, particularly the contracts that players sign with their teams. What should all eSports contracts address? Why are player-team contracts so important? How can players and teams work to mutually improve contracts to bring about a reliable—and profitable—work environment? Since many *League of Legends Championship Series* (LCS) player contracts are expiring this offseason, and *League of Legends* (LoL) is more popular than ever before, now is the critical moment to answer these questions to ensure these contracts do not obstruct the growth of the game and its professional leagues.

There are five major parties involved in competitive LoL: players, teams, Riot, sponsors, and streaming service providers (i.e. Twitch.tv). The interests of these parties often align—after all, each benefits from the continued growth of eSports; they all want a bigger pie. But they also compete to acquire larger pieces of that pie.

The relationships between the parties are therefore outlined in contracts, which delineate the rights and obligations they have to one another. Having clearly expressed expectations along with written commitments to meet those expectations maintains healthy business relationships, and makes it considerably less likely conflicts will arise. The amount of money at stake in professional LoL is now high enough that verbal or ambiguously written contracts will often be exploited. Players, teams and owners can become distracted by unnecessary disputes, or worse, they may be disqualified from participating due to a simple failure to communicate and document their commitments to one another. Moreover, the cost of litigation drastically exceeds that of formalizing expectations in clear, thorough contracts, so written contracts make good business sense for all parties.

### WHAT CONTRACTS ARE INVOLVED?

There are several contractual relationships that exist in professional LoL. Players are involved, at least secondarily, in every relationship—they sign contracts with Riot, their team, and streaming service providers. In addition, Riot (more specifically, the League of Legends Championship Series, LLC) enters into contracts with each team participating in the league. Sponsors also sign contracts with players, teams, and Riot (often several at the same time). To help clarify the various contractual relationships, see Figure 1 below.



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#### PLAYER CONTRACTS: KEY ISSUES

Though the principles outlined in this article apply to every contractual relationship, this article focuses on the contracts players enter into with their respective teams because they are at the heart of professional LoL. Contracts between players and teams can and should cover a wide array of topics. Some of the most essential issues are covered below. However, there are no one-size-fits-all solutions; each contract must be negotiated independently, because specific player goals and needs vary significantly, as do those of the teams with which they sign.

##### Player Mobility:

The offseason between the 2014 Spring and Summer LCS marked the transition of eSports from business to *big business*. As the summer season approached, every LCS team was eager to improve its roster in order to facilitate a World Championship run. Players retired, changed teams, and moved continents—all while under contractual agreements with their teams.

In contrast to other prominent sports leagues, the [LCS Rules](#) offer virtually no restrictions on player mobility. There are no “Franchise Players” (players who are ineligible for free agency and who can only change their team affiliation by either being traded or retiring). LCS Rules only limit trades to a particular timeframe, and there is no salary cap to prevent the creation of a “super team” by simply offering players more money.

Without a strict set of league-established rules, the primary source of restrictions and protections for each player must be set out in the player-team contracts. What happens to players when they are benched or retire? Can a player move teams while under contract? When a team is relegated, can the players simply abandon ship to try to get back into the LCS? These questions can and should be expressly addressed in each player contract.

##### Division of Revenue:

In other professional sports, players and teams generate separate sources of incomes. Players receive salaries and enter into independent promotional deals with interested brands. Teams, on the other hand, generate revenue from ticket sales, stadium vendors, TV deals and merchandising.

Though some player contracts entitle players to a percentage of these revenues, the sources of income remain largely distinct.

Professional LoL teams, on the other hand, do not own stadiums. They cannot sell tickets to spectators, enter into vendor agreements, or strike a local TV deal—at least not yet. As a result, the sources of income in professional LoL for players and teams overlap significantly, although the extent to which that income is shared varies team-by-team.

Professional LoL income comes mainly from three sources: (1) streaming, (2) sponsor endorsements, and (3) Riot. Streaming revenue is calculated based on the popularity of each channel; players receive a share of monthly payments from users subscribing to their individual Twitch channel, as well as a percentage of advertising revenue (which is calculated based on the quantity of viewers in relation to the advertisements aired). Recent estimates suggest that the most popular LoL players earn up to [\\$20,000 per month](#) from streaming alone.

Every LCS team also has significant corporate sponsorship. In addition to major technology companies that provide sponsorship revenue, such as *Razer* and *Alienware*, the rise of eSports has attracted major international companies, including *Coca-Cola*, *Qualcomm*, and *AXE*. The involvement of these blue-chip advertisers bodes well for the future of eSports. It also signifies a shift toward potentially larger endorsement deals, the revenue from which could (and should) be specifically delineated in team-player contracts.

Lastly, LCS players and teams receive some direct funding from Riot. Under the 2014 LCS rules, players are entitled to a minimum of \$12,500 per season. Additional funding is provided to support team expenses, though that figure is not publicly available. Riot also establishes prize pools for major events, such as the LCS Playoffs and World Championships (where the first prize is \$1 million).

The big question that every contract must answer is simple: *how will these various sources of money be divided?* This brings to mind more specific questions: Should players receive large base salaries? In exchange, should they share streaming income or

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forego a percentage of sponsorship revenue? Do players maintain the right to seek independent sponsorships, or should they allow the team to handle all sponsorship arrangements? Should there be bonus incentives based performance over the duration of the season? Player contracts often differ on these points; no matter how a contract chooses to answer the questions, the key is simply that each situation is addressed. Creating successful compensation structures is crucial to the survival of any professional sports league, and not getting it right can constrain the growth of the league and its fan-base—think, for example, of the damage done by player strikes in baseball and hockey.

#### Employment Status:

Whether a player is considered an independent contractor or an employee of their team is a significant legal distinction. If the players are employees, this status implicates a wide array of statutory requirements that teams must follow, including paying payroll taxes, complying with minimum wage and overtime requirements (including during the offseason), providing meal periods and rest breaks, maintaining adequate Workers' Compensation Insurance.

Obviously, teams would prefer to treat players as independent contractors in order to forgo these responsibilities. However, as the [California Department of Industrial Relations notes](#), the "existence of a written agreement purporting to establish an independent contractor relationship is not determinative." Instead, California law starts by presuming that the worker is an employee and then looks at the facts and circumstances using a multi-factor balancing test to determine if the worker is actually an independent contractor. Most critically, the parties should consider the level of control the team exercises over the player's work and the manner in which that work is performed; the greater the control, the more likely a court is to find that the player is an employee.<sup>1</sup> This analysis has yet to be considered in the context of eSports.

Are professional LoL players, employees or independent contractors? Are players entitled to minimum wage and overtime compensation? What about during the offseason? When a player is removed

from a team, should that player receive unemployment compensation? Where do tax responsibilities and liabilities lie? The applicability of these statutory protections hinges on the nature of the relationship established by the agreement.

The US Department of Labor and State of California [recently partnered to crack down on employee misclassification](#); penalties for noncompliance can be severe. As eSports grow from business into *big business*, players and teams should become more aware of their legal rights and responsibilities, ensuring compliance with applicable state and federal laws.

#### Job Responsibilities:

Player contracts must define the responsibilities of the player. Is there a minimum amount of time the player is required to practice the game daily or weekly? If streaming revenue is essential to team survival, does the contract require a minimum number of hours streamed per month? What happens if the player does not meet the minimum requirements? What about participation in promotional activities? Do player obligations change from the LCS season to the offseason? Rather than leaving these questions to player and team discretion and informal conversation, the player contracts need to clearly define the expectations and mutual understanding of both parties. When those expectations are specifically outlined in a contract, there is less room for teams to place undue burdens on players or for players to claim that such expectations are unreasonable.

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<sup>1</sup> The [IRS also has a list of criteria](#) it will apply to refute an attempt to mischaracterize a true employee as an independent contractor.

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#### CONCLUSION

In order to address each of the topics outlined above, players and teams should engage in direct dialogue surrounding their interests and priorities. There have been frequent requests for Riot to get more involved in this process, and it has obliged to a certain extent by implementing a [new player symposium](#) to help guide emerging LoL pros through some of the key hurdles in becoming a professional eSports player. But Riot has legal and business interactions with the players and teams, as well as its own interests to protect, all of which encourage it to remain neutral.

A Players' Association or some kind of representative system to help protect player interests and share information could improve this process. Standardizing all of these issues and applying them equally across the entire league would simplify and bring clarity to the compensation and performance expectations of the team owners and players. The [second article](#) in this series outlines the benefits and detriments of implementing such a system.

We are obviously biased, but there is also no substitute for hiring professionals to help review proposed contracts and discuss the legal and practical implications of their terms. Whether it's an agent, lawyer, or some other qualified party, players and teams need to understand the significance of the various contracts they sign and the ways in which such contracts could impact them.

In a [recent Reddit post](#), longtime-pro Stephen "Snoopeh" Ellis commented, "Comparing eSports contracts to Sports contracts such as the NBA, NFL or MLB is genuinely laughable - even if they should really follow the same premise (of course the money is less significant, but principals the same)." Ellis is correct. Players and teams must recognize and bridge the gaps in current contracts during the upcoming offseason. Clarifying expectations and defining the rights and obligations of all parties will serve as a critical next step for LCS stability and long-term prosperity for everyone involved in the future of eSports.

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