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July 18, 2016

VIA E-MAIL AND REGULAR MAIL

Richard Teng, Administrator
Division of Gaming Control
San Jose Police Department
210 North Fourth Street, Suite 202
San Jose, CA 95112

Re: **Notice of Meeting Regarding Intention to Deny Applications for Stockowner License**

Dear Mr. Teng:

I write on behalf of my clients Masis Kevorkian, Ryan Stone, and Kermit Schayltz (Stone Group) in response to your letter of July 11, 2016, in which you gave notice that you intended to deny their Applications for stockowner license.

My clear recollection of what we discussed at our February 9, 2016 meeting and our subsequent phone conversations are at odds with some of the facts included in your letter to support the 3 Findings. Below is a chronology of events leading up to your July 11 letter, which will provide context for our response to each of the 3 Findings.

My Involvement and the Souza Investigation

As I informed you, in early September 2015, I was initially retained by the Stone Group to deal with the investigation into the alleged illegal conduct committed by Harvey Souza, the owner of the Seven Mile Casino in Chula Vista (Seven Mile), being conducted by the FBI and the U.S. Attorney's Office (USAO) in San Diego. My clients were and are not involved in any way with the criminal investigation; however, it was our understanding the USAO would likely seek to indict both Souza and Seven Mile. Given the Stone Group's right to purchase up to 50% of the ownership of Seven Mile, I participated in several meetings with Souza's defense attorney

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and the AUSA to discuss the possible impact of the investigation and indictment on the gaming licenses and the potential ramifications of any compliance programs that could be imposed on Seven Mile.

On September 23, 2015, the Bureau of Gambling Control (BGC) filed its initial Accusation against Souza et al. (the "Souza Accusation"). As a result, my role was expanded to deal with Deputy Attorney General William Torngren and the BGC investigators responsible for investigating the Stone Group's pending applications for licensing at Seven Mile. The Souza Accusation makes clear that the BGC had concluded that the Stone Group had failed to disclose certain financial transactions with Souza, had been improperly involved in dealings regarding renovating and opening of Seven Mile, and, prior to opening, participated in decisions regarding the cardroom's operations and policies without being licensed to do so.

On or about October 27, 2015, I had my first meeting with Mr. Torngren to discuss the Souza Accusation. At that meeting I assured him that during the course of the BGC's investigation I was committed to total and complete transparency as to what had occurred. I offered to not only answer any questions they had and produce any documentation they requested, but would also make my clients available to be interviewed under oath at any time requested. Thereafter, I produced voluminous documentation of all transactions between the Stone Group and Souza.

Subsequently, the USAO indicted Souza, which caused the BGC to shut down Seven Mile because it determined Souza should not be permitted to operate the facility, and it determined the chip liability was short by \$2 million. I worked with Mr. Torngren to facilitate a \$2 million loan from Rod Stone to Seven Mile to enable the casino to reopen. Shortly thereafter, given the allegations in the Souza Accusation, we commenced an internal investigation to determine what involvement, if any, the Stone Group had in connection with Souza in the construction, development, or any other aspect of getting Seven Mile opened.

In connection with the BGC's investigation of Seven Mile, they raised a question based on information that you apparently communicated to them that Ryan Stone had made comments to you and/or the Conroys that the Stone Group was operating not only the cardroom in Citrus Heights, but also Seven Mile. BGC indicated you referenced communications where the Stone Group purportedly invited the Division to Chula Vista because you would be impressed with "their" operation of that cardroom. BGC asked us to also address this allegation.

January 28, Meeting with BGC

On or about January 28, 2016, Mr. Torngren and BGC Agent Tyler Burtis met with me and one of my colleagues to discuss various issues including, (1) the current state of negotiations between the Stone Group and Souza; (2) the current situation with the Stone Group's involvement with Casino M8trix (M8trix); (3) the allegations from you regarding Ryan Stone's comments; and, (4) the extent and nature of any involvement the Stone Group had in the

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operation of Seven Mile. We spent a significant amount of time in the meeting making what we believed was a full and complete disclosure of any and all activities the Stone Group had engaged in (as set forth generally in the Souza Accusation) with Seven Mile.

We provided specific details regarding the following topics:

- issues relating to the selection of a general contractor, architect, and designers for the construction work on the building;
- details of issues relating to the set-up of gaming operations, dealing with various vendors, the use of Stone's credit cards, and the use of several Stone Group employees to help get the cardroom open;
- the circumstances of the hiring of a general manager;
- the circumstances involving the hiring of the head of Food and Beverage;
- the use of several marketing companies who had previously worked for the Stone Group, and what roles and functions they performed;
- the circumstances of their involvement with the restaurant including naming and menus;
- the marketing ideas for various tournaments;
- the use of various vendors by Seven Mile, who had performed or were performing services for the Stone Group at the Citrus Heights facility (including Transient Path who provided casino management software); and,
- an analysis of the financial records of Seven Mile, which would demonstrate that the Stone Group had not taken or received any funds from the card club.

We also responded to your statement to Mr. Torngren about Ryan Stone's comments regarding the Stone Group's operation of Seven Mile. We told the BGC that our clients adamantly denied saying that the Stone Group was operating Seven Mile. We acknowledged it was certainly possible they could have invited the Division to Chula Vista to see what a terrific job they had done building out the new Seven Mile facility because, as you are aware, an affiliate of the Stone Group had an ownership interest in both the land and building where Seven Mile would be located. Further, the purported statement might have related to their anticipated involvement in operating the cardroom *after* their license applications were approved. We pointed out to Mr. Torngren and Agent Burtis that our clients were **not involved in the actual ongoing operation of the cardroom**; that they did not believe that Souza was running the club in an appropriate fashion; that they knew that you were in regular contact with the BGC; and that you would know that they were not yet licensed for Seven Mile. We also acknowledged that our clients sometimes used the words "we" and "our" loosely when referring to Seven Mile, notwithstanding that they knew they had not yet been licensed and therefore the use of the terms "we" or "our" was inappropriate. We suggested that because it made no sense for our clients to tell you that they were operating Seven Mile because they were not doing so and were not yet licensed to do so, the most logical explanation was that there was a miscommunication involved.

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I am confident that both Mr. Torngren and Agent Burtis will confirm my version of these events, including the matters that were disclosed and discussed in that meeting.

My Communications and Disclosures With You

On February 3, you and I had our first phone conversation. When I raised the alleged conversations involving the Stone Group, you specifically told me that you had told Mr. Torngren that the Stone Group could have said something like come down and look at the operation in Chula Vista, as opposed to indicating the Stone Group was actually involved in operating Seven Mile. I told you that made more sense to me than a specific statement that the Stone Group was making statements that they were operating Seven Mile. I know how proud my clients were of the new facility they were involved in building, and believed any statements referenced their pre-opening involvement rather than as the ongoing cardroom operator. You said shortly the Division would be going to Chula Vista to look at the Seven Mile books, and I told you I was confident that you would not find anything that would indicate that the Stone Group had taken any money out of Seven Mile. We then agreed that I would meet you at your office on February 9, and I represented I would tell you the same things we had disclosed to Mr. Torngren and Agent Burtis at our meeting the week or so before.

On February 9, 2016, you and I met alone in your office to discuss the situation with my clients and their pending Applications in San Jose. After we spent some time discussing my background as a federal prosecutor and your history in the gaming industry, I began going through the topics on the agenda I had prepared for our meeting. As is my custom and practice, I had an outline sitting in front of me while we spoke. That list of topics contained 15 different issues, all of which I touched on, including the laundry list of disclosures set forth above from my recent meeting with Mr. Torngren and Agent Burtis. In fact, in addition to the agenda for our meeting, I also had in front of me the **specific** disclosures we had made to the BGC less than 2 weeks before, and I went through that list, which included their role in the hiring of both the general manager and the food and beverage manager, and various vendors including a casino software vendor. I told you, however, that once the cardroom was opened, my clients were not involved in the actual ongoing gaming operation. I further told you I was prepared to provide you with any additional information you requested and would answer any questions. I also suggested that you speak to both Mr. Torngren and the BGC to discuss any of the representations I had made to you.

We also discussed the statements that the Division contended were made by Ryan Stone regarding the Stone Group operation of Seven Mile. I repeated what I had said to Mr. Torngren and Agent Burtis in our recent meeting – that my clients denied making any statement that they operated Seven Mile, while readily acknowledging they may have said the Division should come to Chula Vista to see the terrific facility they built.

At the end of our meeting, in response to my inquiry, you specifically said that you had no problem with either Ryan Stone or Masis Kevorkian, and that if the Division did not find any

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problems in their review of the Seven Mile financial records the next day – “you should be good to go” regarding the pending Applications. In response to your comment, I did say that I was confident that when you looked at the financial records the next day, the Division would not find any inappropriate financial transactions involving my clients. The only financial transactions would be the \$3 million loan and other disclosed financial transactions.

I then asked you if the Stone Group reached a resolution of the ongoing matter with the BGC whether that would have a negative impact on my clients’ San Jose applications, and you replied it should not have any negative impact. I then asked about the timing of the completion of your investigation. You responded that the Division had completed its investigation of John Park’s application and was close to finishing its investigation of my clients’ Applications. The Division would then wait for the BGC and Commission to approve a M8trix license for either Park or the Stone Group and would then move forward to license that entity. I again said that if the Division had any additional questions or would like additional documents to please contact me. You replied that you would speak with Mike Conroy and have him call me if there were any questions.

Your Investigation of Seven Mile’s Financial Records

I was made aware of the fact that the following day, on February 10, 2016, the Division was present at Seven Mile and reviewed the financial records. To my knowledge, the only question raised regarding my clients was an inquiry as to why Rod Stone had loaned \$2 million to the entity. As I believe you are aware, that loan and its terms were specifically negotiated with, fully disclosed to, and agreed to by the BGC *before* it was finalized or any money was transferred.

I was subsequently made aware that on March 3, 2016, the Division again visited Seven Mile and this time inquired as to why my client’s accountant had been asking for the financials of Seven Mile. The answer is, given the ongoing negotiation between my clients and Souza dealing with the purchase of more than the original 50% ownership stake if Souza lost his license, we were doing due diligence. BGC was aware of these additional discussions.

Accusation and Settlement regarding Citrus Heights and Licensing at Seven Mile

In connection with the ongoing settlement discussions with the BGC, an Accusation was filed on June 15, 2016 in connection with the anticipated Settlement Agreement that had been negotiated between my clients and the BGC for months. On June 30, 2016, a Settlement was executed between my clients and the BGC. On July 15, 2016, Mr. Torngren provided you with copies of both the confidential Settlement and the factors in Mitigation.

With this series of events in mind, we respond to the Findings as follows:

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Finding 1

Finding 1 alleges that the Stone Group participated in the gaming operation of Seven Mile Casino without a State Gaming license. As set forth above, on January 28, 2016, we met with Mr. Torngren and Agent Burtis in a confidential settlement discussion related to these allegations. During this discussion, we provided a detailed proffer of the Stone Group's involvement in Seven Mile. We fully disclosed the specific employment decisions in which the Stone Group were involved, and the specific operational policies, practices, and operations for the cardroom on which Mr. Stone and Mr. Kevorkian advised prior to the club opening. As part of the Settlement the Stone Group have admitted to having participated, in part, in the management of the Seven Mile Casino, without being licensed to do so. As such, they admitted to exercising improper influence over the gambling operation. With these acknowledgments, the Bureau is satisfied with the Stone Group and intends to recommend they receive a license to be able to operate Seven Mile.

All of this was disclosed to you during our telephone conversations and meeting in February and you indicated to me that it should not impact the Applications, and you anticipated that whomever the BGC licensed for M8trix would likely also be licensed by the Division.

Finding 1 is contradictory to your prior representation.

Finding 2

Finding 2 alleges that the Stone Group provided untrue or misleading information to the administrator by first advising the administrator that the Stone Group was involved in the gaming operation of the Seven Mile Casino in Chula Vista, and after the Division learned that the Stone Group was doing so without a State gaming license, the Stone Group then denied their involvement. As set forth above, the description of events and recitation of facts is mistaken.

These allegations are based on purported statements by Mr. Stone and Mr. Kevorkian in meetings with you on June 9, 2015 and August 9, 2015, as well as purported statements by me during our meeting on February 9, 2016. Our position has always been consistent. When the Stone Group spoke about Seven Mile, they were only referencing the cardroom because of the facility, not to infer any post-opening ongoing involvement in operations. When I spoke with you I disclosed all of the pre-opening activities in which the Stone Group participated relating to the facility and financial involvement. This same information was disclosed to Mr. Torngren along with all of the documentation requested by the BGC. Then I clarified Mr. Stone and Mr. Kevorkian's statements from June and August of 2015 did not infer any involvement in the ongoing operations, but only referred to the facility.

Mr. Stone and Mr. Kevorkian are very proud of the transparent and compliant gaming operation that they run at Stones Gambling Hall in Citrus Heights, and tried to impress this fact on you. However, Mr. Stone and Mr. Kevorkian vehemently deny making any statement that they were actively involved in the operations of Seven Mile Casino. They never would have said

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that they were proud of the ongoing operation at Seven Mile, which at the time, was being run by Harvey Souza. They had no faith in the way Souza was running the gaming operation. Rather, Mr. Stone and Mr. Kevorkian were extremely proud of the physical facility that they had built in Chula Vista, a cardroom they hoped to one day to be licensed to operate. When we first spoke on the phone, my notes reflect that you understood that it was possible Mr. Stone and Mr. Kevorkian were only discussing the facility, not the ongoing gaming operations.

As we explained to Mr. Torngren and Agent Burtis, we believe your interpretation of Mr. Stone and Mr. Kevorkian's statements is based on miscommunication, rather than a misrepresentation by Mr. Stone and Mr. Kevorkian. I attempted to explain this misunderstanding when I met with you on February 9, 2016. Unfortunately, as set forth above, I believe you have misconstrued my comments at our meeting. Apparently, somehow, you took my statements to constitute a denial of the Stone Group's involvement in Seven Mile following the Divisions' determination that they were involved without a State gaming license. In other words, you appear to be claiming that my statements were part of the alleged violation. Such an allegation is factually inaccurate and does not make sense. Only twelve days before our meeting, I had met with Mr. Torngren to provide full disclosure of our clients' involvement in Seven Mile Casino. It is totally illogical to think I would make a full factual disclosure to him, and then less than two weeks later take a diametrically contrary position with you (especially since I knew full well the two of you talked and shared information on a regular basis). In fact, as set forth above, I disclosed virtually all of this same conduct to you.

Your statement that "Mr. Lipman finally stated that the Division will not find anything related to the Stone Group's involvement other than financial transactions relating to the Stones' \$3 million loan to the Seven Mile (formerly Village Club)" is a perfect example of your misconstruing my comments. As set forth above, it was in response to your comment that the Division would be going to Seven Mile the following day to review the financial records, that I said – I was confident that when you looked at the financial records the next day, the Division would not find any inappropriate financial transactions involving my clients – only the \$3 million loan and other previously disclosed financial transactions.

Finding 3

Finding 3 alleges that the Stone Group failed to establish by clear and convincing evidence they are qualified for a license, failed to cooperate with the administrator, and failed to provide information and assurances requested by the administrator or his agent.

All of the events relating to the failure to cooperate occur after my clients' March 9, 2016 request to suspend the Applications because of the potential that there was no interest in M8trix for the Stone Group to purchase. As explained in the Request to Withdraw the Applications letter dated July 14, 2016, it became unclear whether the owner of M8trix would honor the agreement to purchase an ownership interest. If there is no ownership interest to purchase, it would be a waste of time and resources to continue to pursue a license that would never be used.

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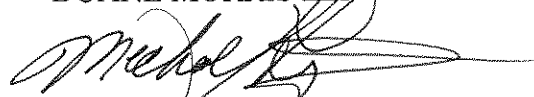
However, because there was a potential that the agreement to purchase stock in M8trix *might* be honored, they were not yet ready to withdraw the Applications in March of 2016. As a result of this uncertainty, the Stone Group didn't respond to the April 1, 2016 request for additional information. As I have discussed with you in our recent phone conversation, I am largely responsible for our failure to fully communicate in response to your April 1 letter.

Up until that point, it is undisputed that the Stone Group had fully cooperated and it was only as a result of the uncertainty of the agreement with M8trix that an issue was created. It is now clear that the agreement to purchase stock will not be honored, thus it is unnecessary to continue with the licensing Applications. The concerns raised by you regarding the conduct in Chula Vista are appropriately being handled by the Bureau of Gaming Control, and are subject to the Settlement Agreement entered into between the Stone Group and the Bureau. Continued review of the Applications solely to address these issues is superfluous.

For the aforementioned reasons and those set forth in my July 14 letter, we submit that it is appropriate to grant our Request to Withdraw the Applications without prejudice. However, if the Division chooses to continue to investigate the moot Applications, the Stone Group respectfully requests an opportunity to provide the Division with the documentation requested in the April 1, 2016 letter and any other documentation that it believes is relevant to its investigation.

Sincerely,

DUANE MORRIS LLP



Michael E. Lipman

MLL:ct

cc: Masis Kevorkian
Ryan Stone
Kermit Schayltz