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AND SRI LANKA

February 15, 2017

CONFIDENTIAL

Mr. Glen R. Googins
City Attorney
City of Chula Vista
276 Fourth Avenue
Chula Vista, CA 91910

Mr. Gary Halbert
City Manager
City of Chula Vista
276 Fourth Avenue
Chula Vista, CA 91910

Chief Roxana Kennedy
Police Chief
Chula Vista Police Department
315 Fourth Avenue
Chula Vista, CA 91910

**Re: Application for the Transfer of the Gambling License for Seven Mile Casino
From VC Cardroom Inc. to Stones South Bay Corp.
License Numbers 078333 and 078334**

Dear Mr. Googins, Mr. Halbert, and Chief Kennedy:

This letter is submitted pursuant to Section 2.5 of the Chula Vista Gaming Plan to formally request the City of Chula Vista approve and ratify the transfer of the two consolidated licenses to own and operate Seven Mile Casino ("Seven Mile") from V.C. Cardroom, Inc. to Stones South Bay Corporation.

As you know, we represent Stones South Bay Corporation, which is owned by Rodney Stone, Ryan Stone, Masis Kevorkian, and Kermit Schayltz, (collectively referred to as the "Stones Group"), which has entered into agreements to purchase 100 percent of Seven Mile from V.C. Cardroom, Inc., conditioned upon the approval of the California Gambling Control Commission and the City of Chula Vista.

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February 15, 2017

Page 2

Pursuant to section 2.4 of the Gaming Plan, the Stones Group previously submitted the required applications to the Chula Vista Police Department on December 12, 2016. We understand that those applications have been reviewed and submitted to the City. Through this letter, we now request the applications and transaction be submitted to the City Council to ratify the transfer of the consolidated gaming licenses for Seven Mile and all related business licenses and permits.

Current Ownership and Licensing

Currently, V.C. Cardroom, Inc. is wholly owned by the Harvey and Bette Souza Living Trust dated February 7, 2010 (the "Trust"), which operates Seven Mile. Following the Emergency Order issued by the Bureau of Gambling Control (the "Bureau") in December of 2015, Seven Mile is currently operated by an independent manager who reports directly to the Bureau.

Seven Mile currently operates out of the building located at 285 Bay Blvd., Chula Vista, California 91910 (the "Property"). The Property is owned by V.C. Bay Properties, LLC, which has two members – the Trust and Stone Chula Vista Holdings, LLC, which is owned by Ryan Stone, Rodney Stone, and Masis Kevorkian. On March 3, 2015, the City approved the Stones Group's landlord interest as a financial interest holders under the Gaming Plan, as set forth in Resolution No. 2015-057.

In November of 2016, Seven Mile also began leasing additional parking and storage space located at 215 Bay Blvd., Chula Vista, California, which is owned by Stone 215 Bay Blvd. LLC ("Stone 215"). Stone 215 is owned by Rodney Stone and Ryan Stone, and Masis Kevorkian will become a member shortly.

Agreements to Sell Seven Mile Casino

V.C. Cardroom, Inc. and the Stones Group have entered into two Agreements to purchase 100% of Seven Mile.

The original agreements (the "First Tranche") contemplated a transfer of the assets and liabilities of Seven Mile from V.C. Cardroom, Inc. into V.C. Cardroom, General Partnership (the "Partnership"). The Partnership would then issue partnership interests to V.C. Cardroom, Inc. and the Stones Group, which would have a partnership interest of 10.71% with the option to purchase up to an additional 39.29%. The Purchase and Option Agreements were submitted to the Bureau, which recommended approval of the transaction to the California Gambling Control Commission (the "Commission"). The Commission approved the transfers of interest in Seven Mile Casino, the Purchase and Option Agreements (pursuant to Business and Professions Code sections 19824(c), 19892, and 19904), and the issuance of a Temporary State Gambling license to VC Cardroom, General Partnership to operate Seven Mile (pursuant to Business and Professions Code sections 19824(f), 19852, and 19000, CCR, Title 4 sections 12054 and 12342).

February 15, 2017

Page 3

Attached as Exhibit A is a true and correct copy of the excerpt for the minutes from the November 17, 2016 Commission Meeting, which reflect that approval.

The second agreement (the “Second Tranche”) was an agreement entered into in November of 2016, which contemplated the sale of the second fifty percent of the Partnership from V.C. Cardroom, Inc. to the Stones Group. To finance the purchase of the Second Tranche, the Stones Group will obtain a loan from Comerica Bank and V.C. Cardroom, Inc. will take back a note for a portion of the purchase price. The Second Tranche has been submitted to the Bureau for its recommendation and approval. It is anticipated that the Bureau will recommend approval of the Second Tranche to the Commission.

If both the Commission and the City approve the transactions and transfer of the gaming licenses, both the First Tranche and the Second Tranche will close simultaneously. Upon closing, the Stones Group would be the sole member of the Partnership; therefore, the Partnership would dissolve by operation of law, and all of the assets and liabilities of the Partnership would transfer to Stones South Bay Corp.

Ownership and Financial Interest After the Closing

Following the closing of the First and Second Tranches, the Stones Group will own one hundred percent of the gambling establishment, Seven Mile. The Stones Group will also have complete control over the gaming operations, presuming that the Commission adopts the recommendation to dissolve the Emergency Order upon the closing of the First and Second Tranches. After the closing, V.C. Cardroom, Inc., the Trust, Harvey Souza, and Betty Souza will not have any interest in ownership or the operation of Seven Mile or the licenses.

Gaming Plan section 2.4.3, includes a more expansive definition for “financial interest” in the cardroom. Based on section 2.4.3, the following entities and individuals will have a “financial interest” after the closing:

1. Comerica Bank – lender to the Stones Group, to be secured by the gambling assets
2. V.C. Cardroom, Inc. – lender on the Note to the Stones Group, subordinate to the Comerica loan
3. Ryan and Ashley Stone Family Trust dated April 24, 2002, Ryan Stone, and Ashley Stone – Guarantors on the Note to V.C. Cardroom, Inc.
4. 2005 Kevorkian Family Trust dated June 10, 2005, Masis Kevorkian, and Willa Kevorkian – Guarantors on the Note to V.C. Cardroom, Inc.
5. VC Bay Properties LLC – landlord to Seven Mile

February 15, 2017

Page 4

6. Stone 215 Bay Blvd. LLC – landlord to Seven Mile

The Stones Group Operation of Seven Mile Casino

The Stones Group intends to take an active role in the day to day management and operations of Seven Mile after the closing. Ryan Stone, Masis Kevorkian, and Kermit Schayltz will take an active role in the oversight of Seven Mile. The current general manager, Joe Olivieri, will report directly to them in discussing the daily operations, management, and compliance issues. Rodney Stone will also be involved in decisions regarding operation strategy and global management decisions.

Additionally, Art Van Loon, who has a portable key employee license and more than 30 years of experience managing casinos and cardrooms, will be retained to assist with overseeing the operations at Seven Mile and providing input and guidance to the current management and the Stones Group.

Request to Waive Gaming Plan section 2.5.6 Regarding the Transfer of Class II Licenses

Seven Mile currently operates pursuant to two separate licenses, which have been consolidated pursuant to Gaming Plan section 2.6. The City Council adopted Resolution No. 15-056, which authorized the owner of the gaming license to operate a maximum of 20 tables and increase the number of Class II tables to 15. The Stones Group requests the Police Chief recommend transfer of the license and the ability to operate Class I, IA and II tables and games as set forth in section 3.5.4 of the Gaming Plan.

Gaming Plan section 2.5.6 governs the transfer of Class II Licenses. The section contemplates that the transfer of a Class II license will cause the license to revert to a Class I license if a material or controlling interest in a Class II license is transferred, unless the chief of police determines that the transferee is a “pre-qualified transferee”. (Gaming Plan sections 2.5.6.1 and 2.5.6.2.) A review of this section shows that the purpose of the “pre-qualified transferee” language is to ensure that the licensed person has sufficient experience managing and operating a licensed cardroom for a continuous period of time to be able to handle the responsibility of additional players and increased betting authorized at Class IA and Class II tables.

The Stones Group has the required experience to operate the tables in compliance with local and state laws. Kermit Schayltz has either managed or owned cardrooms in California for over 27 years. Ryan Stone and Masis Kevorkian, through King’s Casino Management Corp., purchased the cardroom in which Mr. Schayltz had an interest. Together, they have operated two 17 table cardrooms in Citrus Heights, California since 2013. Additionally, as mentioned above, they will also bring in Art Van Loon, who has substantial experience both in California cardrooms and indian gaming casinos as a gaming operations manager and has held titles including Chief Operating Office, Vice President of Gaming, and General Manager. Further,

February 15, 2017

Page 5

permitting Seven Mile to continue operating with its current Class I and Class II tables will ensure continuity for the community and the employees.

Therefore, the Stones Group respectfully requests that the City approve the transfer of the gaming and business licenses to own and operate Seven Mile Casino to the Stones Group without modification.

Respectfully,

DUANE MORRIS LLP



Heather U. Guerena

Michael L. Lipman

HUG
Enclosures

EXHIBIT A

California Gambling Control Commission
2399 GATEWAY OAKS DRIVE, SUITE 220
SACRAMENTO, CA 95833
(916) 263-0700 FAX (916) 263-0499
www.cgcc.ca.gov

**MINUTES OF NOVEMBER 17, 2016
COMMISSION MEETING**

OPEN SESSION

1. Call to Order and Pledge of Allegiance.

Chairman Evans called the meeting to order at 10:00 a.m., and asked everyone to stand for the Pledge of Allegiance.

2. Roll Call of Commissioners.

Roll Call of Commissioners was taken with Chairman Jim Evans and Commissioners Tiffany Conklin, Roger Dunstan, Lauren Hammond, and Trang To present.

3. Approval of Commission Meeting Minutes for:
 - A. September 8, 2016
 - B. September 22, 2016
 - C. October 5, 2016 – Regulations Hearing
 - D. October 6, 2016

Action:

Upon motion of Commissioner To seconded by Commissioner Hammond and unanimously carried in a vote by roll call with Chairman Evans and Commissioners Conklin, Dunstan, Hammond, and To voting yes; the Commission approved the minutes for September 8, 2016, September 22, 2016, October 5, 2016 Regulations Hearing, and October 6, 2016.

4. Consideration of Approval of Transfers of Interest in Seven Mile Casino; Purchase and Option Agreements (Pursuant to Business and Professions Code sections 19824(c), 19892, and 19904):

- | | |
|--|---|
| A. Seven Mile Casino (Security Interest): | VC Cardroom, Inc. (Transferor)
VC Cardroom General
Partnership (Transferee) |
| B. Seven Mile Casino (Partnership Interest): | VC Cardroom, Inc. (Transferor)
Harvey Souza (Transferee) |
| C. Seven Mile Casino (Partnership Interest): | Harvey Souza (Seller)
Stones South Bay Corporation (Buyer) |

Commission Meeting Minutes of November 17, 2016

D. Seven Mile Casino (Partnership Interest): VC Cardroom, Inc. (Seller)
Stones South Bay Corporation (Buyer)

By Concurrence of the Commissioners, items 4. A. through 4.D.were heard as a group.

Comments Received From:

Michael Lipman, representing the Stones Group

Chairman Evans asked Michael Lipman if he understood the conditions placed on items 4A through 4D. Mr. Lipman stated that he understood and accepts the conditions.

Action:

Upon motion of Commissioner Dunstan seconded by Commissioner To and unanimously carried in a vote by roll call with Chairman Evans and Commissioners Conklin, Dunstan, Hammond, and To voting yes; the Commission approved the transactions with the conditions noted below:

1. *Within 15 days of Commission approval, VC Cardroom General Partnership shall provide to the Bureau and the Commission copies of the certificates evidencing the partnership interest, proof of compliance with the requirements of Business and Professions Code section 19892, and a legend identifying the restrictions of Business and Professions Code section 19904.*
2. *Within 15 days of Commission approval, Stones South Bay Corporation shall provide to the Bureau and the Commission copies of the stock certificates evidencing the shares issued, proof of compliance with the requirements of Business and Professions Code section 19882(c), and a legend identifying the restrictions of Business and Professions Code section 19904.*
3. *Within 15 days of Commission approval, the Partnership shall provide to the Commission and the Bureau a written statement setting forth the following: (a) EBITDA (earnings before interest, taxes, depreciation, and amortization) as calculated pursuant to the Partnership Interest Purchase and Sale Agreement (PSA), as amended, and the Option Agreement, as amended; (b) the adjusted purchase price calculated pursuant to the PSA, as amended; (c) the exercise price determined pursuant to the Option Agreement, as amended; (d) the date, the amount, the maker, and the payee with respect to each item of indebtedness forgiven, or acknowledged as satisfied, pursuant to the PSA, as amended; and (e) what indebtedness by amount, maker, and payee that remains unsatisfied as between the parties to the Contemplated Transactions or their affiliates.*

Commission Meeting Minutes of November 17, 2016

4. *Within 15 days of Commission approval, VC Cardroom, Inc. and Stones South Bay Corporation, either jointly or separately, shall provide to the Bureau and the Commission written confirmation that no material change was made to the transactions and that the transactions are substantially the same as approved by the Commission.*

5. Consideration of Approval of Request for Temporary State Gambling License (Pursuant to Business and Professions Code sections 19824(f), 19852, and 19900: CCR, Title 4 sections 12054 and 12342):

Seven Mile Casino:

VC Cardroom General Partnership

Comments Received From:

Kermit Schayltz

Ryan Stone

Bill Torngren, Deputy Attorney General, (DAG) Department of Justice

Commissioner Hammond asked for the record if Mr. Schayltz and Mr. Stone will abide by the conditions placed on the Temporary State Gambling License. They both said they will.

Chairman Evans asked DAG Torngren why approval of this transaction is in the public interest. DAG Torngren, in summary, responded by stating there are several reasons that the transaction is in the public interest. DAG Torngren stated that it allows the cardroom to remain open with an ownership that has the financial wherewithal and that is committed to transparency, which is in the public interest. In addition, there was an emergency order issued on Dec. 9, 2015, negotiations then ensued with representatives of the cardroom. Those negotiations resulted in the reopening of the club on Dec 31, 2015. That reopening was subject to certain agreements as outlined in the emergency order and in order to protect the public welfare interest. With respect to this transaction, it is the first step. DAG Torngren stated he had received a copy of a second transaction and there has been an agreement there will be a conveyance of the remainder of the Souza trust interest to Stones South Bay, which is also in the public interest. As part of getting the club open there was an infusion of money that was a loan; one of the things that came out in the investigation and that is alleged in the accusation and statement of issues is that there was substantial inadequate funding at the cardroom. There have been negotiations with respect to resolution of the case at that time. DAG Torngren further stated there are certain things we can't have in this industry including using patron's money for someone's own use and to the extent we now have potentially a new ownership, which is committed to transparency. That is unquestionably in the general public interest.

Commissioner Hammond asked DAG Torngren if he was suggesting that there were irregularities before the cardroom moved to their new location. DAG Torngren stated that in the public documents there clearly was an indictment that has been resolved between the Federal Government, VC Cardroom Inc. and Mr. Souza. That has been resolved by a deferred prosecution agreement and a payment of a certain sum of money. The basis of that indictment was well publicized and the Commissioners

Commission Meeting Minutes of November 17, 2016

were provided a copy. The basis of that indictment was a violation of anti-money laundering by not having an adequate anti-money laundering program. However, if you look at the underlying facts alleged there are bookmakers, and organized crime in certain cardrooms in San Diego, which is contrary to the public interest.

Commissioner Hammond stated to DAG Tornngren that she has concerns with seeing very similar facts in different cardrooms some with a Financial Crimes Enforcement Network (FinCen) violation, some not. Some owners get a stipulated settlement, other owners get sent to trial. Commissioner Hammond went on to say that it is not the Commissioner's job to know anything about the DAG's negotiations; however, she wants to make sure that the Commission is making the best decisions and not saying yes to some of the owners and no to others. DAG Tornngren responded by saying that Indian and Gaming Law Section (IGLS) does not negotiate settlements without the Bureau's involvement and approval. Ultimately, the Chief of the Bureau authorizes and signs every settlement stipulation. No settlement is possible without an agreement from the Chief and by the settling respondents. No settlement is effective without the Commission's approval. Settlements accompany a detailed letter that explains the settlements and the terms of the settlements. He went on to reiterate the "four C's" he stated during the April 14, 2016 Commission meeting: Conduct, Culpability, Contrition, and Cooperation. DAG Tornngren also added Comparison and that they also look at the relative issues. Some issues are more important than others. At the end of the day, IGLS wants transparency. The DAGs also look at mitigation and aggravation factors and an ability to pay. They look at general deterrence. Finally, DAG Tornngren stated that since January 2011, there were 21 accusations, which is 25% of the gambling establishments, nine emergency cardroom orders issued, seven involved cardroom shutdowns, five Federal cases and 16 of the 21 cardrooms accusations involved admissions of wrong doing. Lastly, DAG Tornngren stated that in all settlements the Bureau, Commission and IGLS look at litigation risk.

Action:

Upon motion of Commissioner To seconded by Commissioner Dunstan and unanimously carried in a vote by roll call with Chairman Evans and Commissioners Conklin, Dunstan, Hammond, and To voting yes; the Commission approved the request for a Temporary State Gambling License for VC Cardroom General Partnership and its principles through Seven Mile Casino's existing Interim Renewal Licensure period, December 17, 2017, with the conditions noted below:

1. *This temporary license takes effect on the date of issuance and expires on December 31, 2017. This temporary license is not subject to renewal and may be extended only by order of the Commission at its discretion, but in no case shall this temporary license exceed 24 months.*
2. *Issuance of this temporary license does not obligate the Commission to grant a regular license. Issuance of this temporary license does not create a vested right in the holder to either extension of the temporary license or to a regular license.*

Commission Meeting Minutes of November 17, 2016

3. *Issuance of this temporary license does not change the license qualification requirements of the Gambling Control Act, including the legal requirement that the burden of proving his or her qualifications to receive any license is on the applicant.*
4. *The Commission, when evaluating the applicant's pending application for a regular state gambling license, will consider the conduct of the applicant and its employees, if applicable, during the term of the applicant's temporary license.*
5. *Notwithstanding any other limitations on this temporary license, it is also subject to the discipline and penalties provided in Article 10 and Article 11 of the Gambling Control Act. The issuance of this temporary license is without prejudice to the Bureau's prosecution of an accusation.*
6. *The granting of this temporary license in no way diminishes the responsibilities or powers of the Bureau in enforcing the Gambling Control Act and other applicable laws and regulations with respect to the temporary license.*
7. *This temporary license will only be valid as long as an application for a regular license is currently pending.*
8. *The holder of this temporary license shall pay all applicable fees associated with that license as if the temporary were a regular license.*
9. *If a regular license is not issued within the valid time period of the temporary license, the temporary licensee may submit a request for a new temporary license.*
10. *Upon issuance or denial of a regular license, this temporary license shall become invalid.*
11. *The holder of a temporary license shall comply with all applicable provisions of the Gambling Control Act and Commission and Bureau Regulations.*
12. *The Commission may impose additional conditions to this temporary license in its sole discretion at any noticed public meeting. The imposition of additional conditions does not entitle the temporary licensee to an evidentiary hearing under the Gambling Control Act or Commission regulations.*

Commission Meeting Minutes of November 17, 2016

13. *Within 15 days of Commission approval, VC Cardroom, Inc. must provide an updated agreement with Francis Burger reflecting any applicable change due to the restructured ownership of the cardroom.*
14. *VC Cardroom General Partnership, as the licensed entity owning and operating Seven Mile Casino, shall abide by all applicable conditions placed on VC Cardroom, Inc. listed in the Emergency Order dated December 9, 2015.*

6. Graton Mitigation Fund Final Report for Distribution to County of Sonoma and City of Rohnert Park – Quarter Ending September 30, 2016 (Pursuant to Government Code section 12012.56 & Compact section 4.5.1):
Federated Indians of Graton Rancheria

Action:

Upon motion of Commissioner Hammond seconded by Commissioner Conklin and unanimously carried in a vote by roll call with Chairman Evans and Commissioners Conklin, Dunstan, Hammond, and To voting yes; the Commission approved the distribution payments as listed in the report.

7. Consideration of A) Transfer of Interest; and, B) Applications for Initial State Gambling Licenses (Pursuant to Business and Professions Code sections 19824(c) 19892; and 19900 CCR, Title 4, sections 12054 and 12342):
- | | |
|------------------------|---|
| A. The Bicycle Casino: | The Bicycle Casino, L.P.
Hashem Minaiy, Transferor
Thousand Palms Enterprises, Inc., Transferee |
|------------------------|---|

Comments Received From:

Joy Harn, Designated Agent

Commissioner Conklin asked Joy Harn if her clients are aware and accept the conditions. Ms. Harn stated they are.

Commissioner Dunstan then asked Ms. Harn if the purpose for the Transfer of Interest was for business planning and what does that mean. DA Harn responded that in a general partnership the general partners are exposed to personal liability while the limited partnerships are not. There are two general partners: Cardroom Management Group Inc. and Mr. Minaiy as an individual. For personal protection, Mr. Minaiy has formed a corporation, and placed all of his general partnership interest in a corporation. He is the only shareholder which allows protection should there be a liability imposed on the general partner; that general partnership is a corporation, therefore, Minaiy's personal assets cannot be accessed.

Action:

Upon motion of Commissioner Conklin seconded by Commissioner Hammond and unanimously carried in a vote by roll call with Chairman Evans and Commissioners