

State of New Jersey

Chris Christie

Kim Guadagno

Office of the Attorney General
Department of Law and Public Safety
Division of Gaming Enforcement
P.O. Box 047
Trenton, NJ 08625-0047

November 20, 2014

John J. Hoffman
Acting Attorney General

David Rebuck

James A. Ryan Chief Executive Officer Pala Interactive, LLC PMB 40 35008 Pala Temecula Road Pala, California 92059

RE: IMO Issuance of Transactional Waiver Petition of Pala Interactive

Dear Mr. Ryan,

As you know, on July 29, 2014, Pala Interactive, LLC ("Pala") filed a Casino Service Industry Enterprise application with the Division of Gaming Enforcement ("Division") seeking licensure to engage in Internet gaming in New Jersey. On October 31, 2014 the Division issued a six (6) month Transactional Waiver to Pala authorizing it to engage in Internet gaming activities with Internet Gaming Permit Holder Marina District Development Co, LLC d/b/a Borgata Hotel Casino and Spa. Please be advised that the Transactional Waiver issued by the Division is based upon a preliminary investigation and does not constitute final licensing approval by the Division of Pala or its individual qualifiers. If the Division uncovers any facts that are inconsistent with those it has currently reviewed, it may move to rescind the transactional waiver and may also object to the final licensure of Pala or its individual qualifiers. A brief overview of the Division's investigation to date is set forth in the attached Pala Transactional Waiver Investigative Report.

The Division is moving forward with its plenary investigation and only at its completion will the Division make a final determination regarding the suitability of Pala and its individual qualifiers.



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Please be advised that I have made the decision to make this correspondence public to provide some clarity with respect to the Division's actions to date. As Director of the Division, it is my responsibility to protect the integrity of the casino gaming in New Jersey both in its operation and in the suitability of those individuals engaged in its management. I take that responsibility seriously. The super user scandal involving Ultimate Bet raised serious issues about the operation and regulation of online gaming and questions have surfaced as to whether certain senior executives at Pala, including yourself, may have been involved in that matter. As you have been advised, additional investigation regarding that and other matters will continue to be examined by the Division before it renders a final licensing decision on Pala and its qualifiers. Consistent with all cases before the Division, its investigation will be comprehensive, impartial and based upon facts, not speculation.

Very truly yours,

David L. Rebuck

Director

c. George Rover, Deputy Director Louis Rogacki, Deputy Attorney General Matthew L. Levinson, Chairman

PALA TRANSACTIONAL WAIVER/RYAN INVESTIGATIVE REPORT

The Division of Gaming Enforcement ("Division") has identified several issues of inquiry regarding certain qualifiers of Pala, including James A. Ryan (JR), that will be the subject of further review going forward. More specifically, the Division as part of its preliminary investigation focused on JR's actions during the time period January 2005 through November 2006 when he served as the Chief Executive Officer of Excapsa Software ("Excapsa") and his continued involvement with Excapsa through 2008 when he served as an advisor to a court appointed liquidator for the Canadian province of Ontario. In particular, the Division examined the underlying facts related to the super-user scandal involving UltimateBet ("UB") and whether it affects the suitability of any Pala qualifiers, including JR. While the facts reveal that the super-user cheating scandal occurred while JR was the Chief Executive Officer of Excapsa, at this time the Division has no evidence that he was aware of, or complicit in, this fraudulent activity. The Kahnawake Gaming Commission investigated this matter and issued a report on September 11, 2009. identifying Russell Hamilton and other un-named co-conspirators as participants in the fraud.

The Division investigated JR's involvement with Excapsa, his subsequent employment and other evidence, including certain audio tapes related to the super-user scandal. In addition, the Division conducted a sworn interview of JR. Our preliminary investigation revealed that JR left Cryptologic in May 2004, joined Excapsa as Chief

Excapsa was formed in 2004 to acquire the assets of ieLogic, which ultimately resulted in its ownership and control over the website and software of UB. At the time, ieLogic was owned by Greg Pierson and Jon Karl.

Under Excapsa's management UB took bets from US customers until shortly after the passage of the Unlawful Internet Gambling Enforcement Act of 2006 ("UIGEA") in October 2006. JR testified under oath to the Division that the passage of UIGEA was a significant event since Excapsa obtained legal guidance that it could no longer take bets legally from US players. On that issue, JR testified that the withdrawal from the US market by 888 and PartyGaming also reinforced this opinion and resulted in the immediate sale by Excapsa of its operating subsidiaries, Excapsa Services Inc. (Ontario) and Game Theory Holding Ltd. (Malta). The Division obtained a Stock Purchase Agreement ("Agreement") between Excapsa and BlastOff Limited (Malta) dated Oct 12, 2006, evidencing that transaction. The Agreement stated that the assets acquired, including the software, were for use ". . . in jurisdictions other than the United States. . . ." The Agreement also provided that the transaction would be "unwound and reversed" if UIEGA was not signed into law by President Bush.

UB, under its new ownership, continued to take wagers from U.S. customers up until Black Friday. As noted above, JR resigned as Excapsa Chief Executive Officer on November 30, 2006.

Excapsa thereafter petitioned the Superior Court of the Province of Ontario to liquidate Excapsa's cash and a long term note receivable to address outstanding liabilities and amounts owed to customers. JR was appointed by the court as an Inspector with respect to the voluntary court supervised liquidation of the remaining Excapsa assets not purchased by BlastOff. This liquidation was done under the supervision of the Superior Court of the Province of Ontario. JR served in this voluntary inspector role, from November 2006 until May 2008.

From January 2007 through June 2008 JR served as the Chief Executive Officer of St. Minver Ltd., a company involved in online bingo, casino and poker products, which operated exclusively in the European market. St. Minver was acquired by Gtech S.p.A. in June 2008.

In June 2008 JR became Chief Executive Officer of PartyGaming. JR was at PartyGaming when the company entered into a settlement agreement with the U.S. Department of Justice in April 2009 to resolve allegations that PartyGaming engaged in illegal conduct prior to the passage of UIEGA.

JR testified under oath to the Division that the software being used in the current Pala platform is completely independent of the software that was used by Excapsa when JR was employed at that entity. The software used by Excapsa to operate UB was developed by ieLogic and preceded JR's employment at Excapsa. The platform and software to be used by Pala in New Jersey was tested and approved by the Division's

Technical Services Bureau.

The preliminary investigation also disclosed that the sponsorship agreement between Pala and Phil Ivey, signed in April 2013, was terminated in June 2014.