
**MARYLAND LOTTERY and
GAMING CONTROL COMMISSION**

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

COMMISSION REPORT



**In Re the Application of
Queen Sportsbook Maryland LLC**

**ONLINE SPORTS WAGERING OPERATOR
LICENSE APPLICANT**

License Applicant Number 2022-SW-49

Report Date: March 9, 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 Regulatory Licensing and Investigations 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 an Online Sports Wagering Operator License, an applicant must submit an Online Sports Wagering 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 36.10.06.02 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 Applicant

The Agency (“Agency,” “we” or “our”), conducted a suitability background license investigation of Queen Sportsbook Maryland LLC (“Applicant”), in connection with its application for an Online Sports Wagering Operator License.

Queen Sportsbook Maryland LLC was formed in Delaware on October 7, 2022, and has its offices in East Saint Louis, Illinois. The Applicant was formed to hold the mobile and online sports wagering licenses in Maryland, and operates as a subsidiary of The Queen Casino & Entertainment, Inc. (“Queen Casino” or “Company”). The Company operates four casinos as well as retail and online sportsbooks, and is currently licensed by state gaming regulatory authorities in Illinois, Iowa and Louisiana.

INVESTIGATION INTO APPLICANT

Background and Ownership

Queen Sportsbook Maryland LLC is owned 95% by Casino Queen Interactive, LLC which is a wholly-owned subsidiary of The Queen Casino & Entertainment, Inc. (formerly known as CQ Holding Company, Inc.). SG CQ Gaming, LLC is the ultimate parent company and sole owner of the outstanding stock of the Company. SG CQ Gaming was formed in Delaware on June 3, 2019, and Mr. Soohyung Kim holds an indirect majority ownership interest in the Applicant, primarily through his ownership of SG CQ Gaming.

The Applicant has submitted an Online Sports Wagering Operator License Application to the Commission. SG CQ Gaming, LLC, The Queen Casino & Entertainment, Inc., and Casino Queen Interactive, LLC have each filed a Sports Wagering Principal Entity Disclosure Form and Mr. Soohyung Kim has filed a Principal Employee License Application with the Commission.

Online Sports Wagering Operations

In order to operate the online sportsbook, the Applicant is currently evaluating third-party platform providers for servers. The Company will fund the costs necessary to establish the mobile and online sports wagering platforms in Maryland, including the required betting reserve for the sportsbook.

The Queen Casino & Entertainment, Inc.’s Restructuring Transaction

On November 27, 2020, all of the outstanding stock of CQ Holding Company, Inc. was acquired by SG CQ Gaming, LLC, resulting in the Queen Casino becoming a new entity for financial reporting purposes. Total consideration consisted of \$2.8 million of cash and the payment of \$44.9 million in debt paid on behalf of CQ Holding Company, Inc. by SG CQ Gaming and its affiliates. The assets acquired and liabilities assumed were recorded at fair value. The source of funds used to pay the consideration were derived from private investors participating in investment funds managed by Standard General L.P., an investment advisor registered with the Securities and Exchange Commission. Standard General L.P. is controlled by Mr. Soohyung Kim, the majority owner of SG CQ Gaming LLC.

Recent Acquisitions

On July 20, 2022, the Company purchased 122,182,840 shares of Intralot S.A. Integrated Lottery Systems and Services (“Intralot”). Intralot supplies integrated gambling, transaction processing systems, game content, sports betting management, and interactive gambling services to licensed gaming organizations worldwide, and acts both as a lottery vendor and a lottery operator. To fund the purchase of the Intralot shares, the Company used funds from a credit agreement with Fortress Credit Corporation. A review of Intralot’s shareholder listing as of March 1, 2023, disclosed that Queen Casino owned 32.9% of Intralot’s outstanding shares.

Discussion of Financial Performance

We performed a detailed analysis of the consolidated audited financial statements of CQ Holding Company, Inc. (the predecessor company) for the period from January 1, 2017 to November 27, 2020, and of The Queen Casino & Entertainment, Inc. (the successor company) for

the period from November 28, 2020 to December 31, 2021. We also reviewed the consolidated unaudited statements of The Queen Casino & Entertainment, Inc. for the calendar year ended December 31, 2022.

Financial Analysis

The Queen Casino & Entertainment, Inc.'s overall operating performance improved over the review period and has allowed the Company to expand its operational footprint. In earlier years, the Company experienced revenue stagnation and high levels of operating costs which provided narrow profit margins. As a result, the Company defaulted on long-term debt in calendar year 2018. However, the Company was restructured in calendar year 2020 and its operating performance has since improved significantly. Queen Casino has grown its revenue while lowering its operating costs, resulting in net profits in calendar years 2020 to 2022. In addition, the Company's overall financial condition improved over time with significant growth in both assets and shareholder equity.

Although Queen Casino's operating results and financial condition have improved, it has increased its debt load to expand its business footprint, and thus is somewhat highly leveraged at a high interest rate of 11.9%. This positions the Company as being more susceptible to economic downturns. Despite this, the Company does not appear to be experiencing any financial distress and has substantial cash reserves of \$26.5 million which appear to be sufficient to meet its operational demands for the foreseeable future. Additionally, Queen Casino's financial ratios and margins are comparable to those of its competitors, and the Company's auditors have not expressed any concerns with the Company's operations, financial condition or continuation as a going concern. There are no financial concerns with Queen Sportsbook Maryland, LLC as an Online Sports Wagering Operator licensee, or with SG CQ Gaming, LLC, The Queen Casino & Entertainment, Inc., or Casino Queen Interactive LLC as a Sports Wagering 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 Queen Sportsbook Maryland LLC 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 36.10.06.02, and not disqualified under SG § 9-1E-07(g)(1), are summarized as follows:

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

APPLICANT AND PRINCIPAL ENTITIES

The Applicant and its principal entities satisfy the applicable qualification criteria under SG § 9-1E-07(e)(6) and COMAR 36.10.03.02 and 36.10.06.02, 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 Principal Employee License Application to the Commission:

1. Cheryl Ash – Board of Directors (Principal License Issued: 11/24/2022);
2. Marc A. Nelson – VP of Sports Operations (Principal License Issued: 11/17/2022);
3. Terrence P. Downey – Chief Executive Officer (Principal License Issued: 11/10/2022);
4. Timothy L. Stephens – Corporate Director of IT (Principal License Issued: 11/17/2022); and
5. William J. Vandersand – Secretary & General Counsel (Principal License Issued: 11/17/2022).

CONCLUSION AND RECOMMENDATIONS

The Applicant has submitted a completed Online Sports Wagering 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 36.10.06.02, we conclude that the Applicant has established by clear and convincing evidence the qualifications required for an Online Sports Wagering Operator License.

Staff recommends that the Commission find Queen Sportsbook Maryland, LLC qualified for an Online Sports Wagering 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 Queen Sportsbook Maryland LLC has established, by clear and convincing evidence, its qualifications for an Online Sports Wagering Operator License; and
2. Delegate to Staff the authority to draft the Commission’s decision statement on the qualification of Queen Sportsbook Maryland LLC for an Online Sports Wagering Operator License.