

MISSOURI GAMING COMMISSION
COMMISSION RESOLUTION NO. 18-009
REGARDING FINDING OF SUITABILITY
AND LICENSURE OF SPORTSHUB TECHNOLOGIES, LLC
D/B/A CDM SPORTS

February 28, 2018

WHEREAS, SportsHub Technologies, LLC d/b/a CDM Sports (“Company”) has applied for a license to operate Fantasy Sports Contests pursuant to sections 313.900 RSMo, et seq., as amended from time to time, and 11 CSR 45-40.010 et seq., as amended from time to time (collectively the “Missouri Fantasy Sports Consumer Protection Act and Regulations”).

THEREFORE, BE IT RESOLVED, the Commission hereby makes a finding that SportsHub Technologies, LLC d/b/a CDM Sports is suitable to obtain a license to conduct Fantasy Sports Contests pursuant to the Missouri Fantasy Sports Consumer Protection Act and Regulations; and

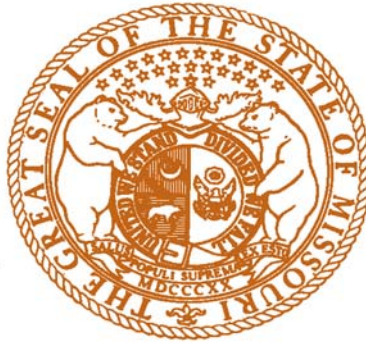
RESOLVED, the license issued to the Company as provided herein shall be subject to full and complete compliance by the Company with the Missouri Fantasy Sports Consumer Protection Act and Regulations; and

RESOLVED, the license issued to the Company as provided herein shall be subject to any penalty or to suspension or revocation based on any pending or subsequent investigating findings by the Commission with regard to the Company, its agents or employees; and

RESOLVED, the Commission hereby issues a Fantasy Sports Contest Operator license to SportsHub Technologies, LLC d/b/a CDM Sports for a period of one year beginning on February 28, 2018.

SUMMARY REPORT

SportsHub Technologies, LLC d/b/a CDM Sports
Minneapolis, Minnesota



MISSOURI GAMING COMMISSION

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William K. Seibert, Jr., Executive Director

PREPARED BY:

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Barbara Whittle, Missouri Gaming Commission

Financial Investigator Dennis Lengyel, Missouri Gaming Commission

February 2018

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PURPOSE OF INVESTIGATION

On June 10, 2016, HB1941 was passed by the Missouri legislature. As a result, 313.900. Sections 313.900 to 313.955 RSMo shall be known and may be cited as the “Missouri Fantasy Sports Consumer Protection Act.” Section 313.910.1 states, “A fantasy sports contest conducted under this chapter is exempt from chapter 572, and does not constitute gambling for any purpose.”

Pursuant to Section 313.935.4, RSMo, “Any fantasy sports contest operator already operating in the state prior to April 1, 2016, may operate until they have received or have been denied a license.” Those operators were required to submit an application postmarked by October 1, 2016. As a result of this statutory requirement, SportsHub was one of the companies that submitted an application prior to the October 1, 2016 deadline and was grandfathered to continue operating while awaiting licensure.

The purpose of this investigation is to assist the Missouri Gaming Commission (hereinafter referred to as “the Commission” or “MGC”) in determining SportsHub Technologies, LLC’s, d/b/a CDM Sports (hereinafter referred to as “SportsHub” or “CDM”) compliance with the statutory requirements of the Missouri Fantasy Sports Consumer Protection Act (hereinafter referred to as “the Act”).

The Commission received a Fantasy Sports Operator’s License application from SportsHub postmarked on October 1, and received on October 3, 2016. Revisions were requested, and the complete document was forwarded to the Investigative team on April 24, 2017. The point of contact for this investigation was SportsHub’s Vice President of Finance & Compliance, Christian Peterson.

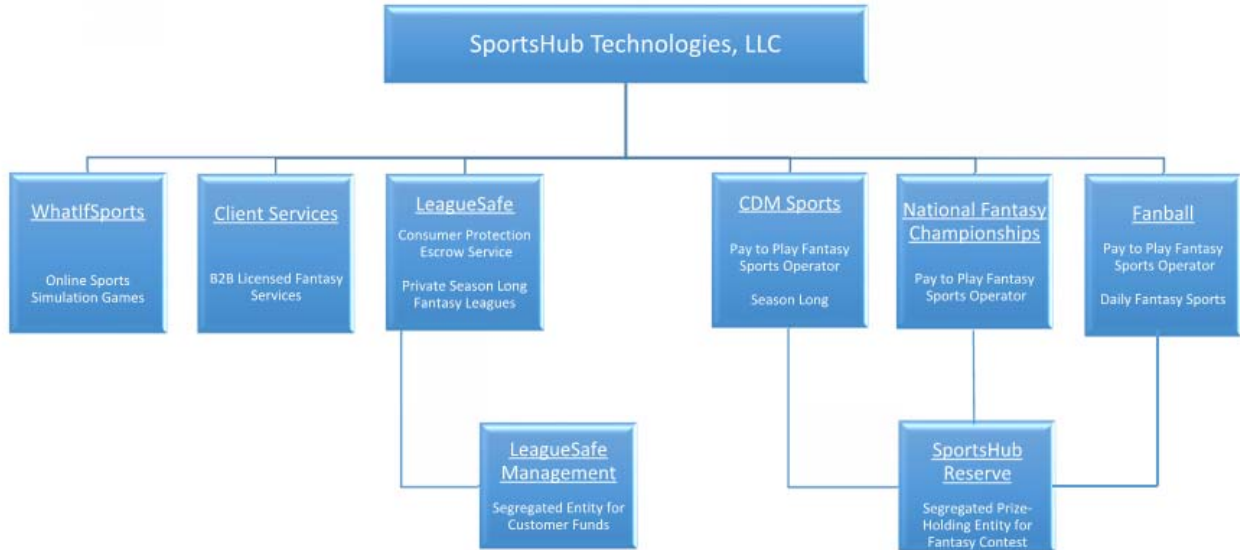
COMPANY OVERVIEW

Company Profile

SportsHub is a Minnesota limited liability company which designs, develops and operates fantasy sports websites, contests, related services and products under the trade name CDM Sports.

SportsHub operates several fantasy contests in the industry, which cover major league sports like baseball (Diamond Challenge), football (Football Challenge), basketball (Basketball Challenge), hockey (Hockey Challenge), auto racing (Fantasy Cup), and golf games (Tour Trade). These products and services are available on the World Wide Web at www.cdmsports.com.

Corporate Organizational Chart



PRODUCTS & SERVICES

SportsHub offers both season-long and daily entries, in all four of the major United States sports (NFL football, NBA basketball, MLB baseball and NHL hockey) as well as auto racing and golf fantasy contests.

STATUTORY COMPLIANCE

(Provided by MGC Fantasy Sports Contest Manager Barbara Whittle)

Procedures for approval, as outlined in Section 313.915.3, RSMo, and procedures for submission, as outlined in Section 313.920, RSMo, which were received from the Fantasy Sports Operator applicant with its application, have been reviewed and approved by Commission staff.

Segregated Funds

(Provided by MGC Legal Counsel Ed Grewach)

SportsHub Reserve LLC has established a custodial account for cash reserve to be held in trust for the benefit and protection of Missouri players. The LLC has entered into a written agreement with Platinum Bank which complies with all the requirements of 11 CSR 45-40.060(2)(A).

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JURISDICTIONS

Mr. Peterson, SportHub’s Vice President of Finance & Compliance, provided the below chart regarding the jurisdictions in which SportsHub operates in along with their opinion on the status/legality of their operations in each jurisdiction:

United States Jurisdictions

STATE	ORGANIZATION	STATUS / DATE APPROVED
Alaska	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Arkansas	TBD	DFS legalized April 2017, no clear registration/application process as of October 1, 2017
California	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Colorado	Office of Licensing	Registration application submitted on June 15, 2017
Connecticut	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Florida	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Georgia	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Illinois	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Indiana	Indiana Gaming Commission	License Approved September 2017.
Kansas	Kansas Racing and Gaming Commission	Kansas excluded fantasy sports leagues from the definition of a “bet” in 2015. SportsHub’s contests meet all of the conditions for being classified as fantasy sports leagues.
Kentucky	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Maine	Maine Gambling Control Unit	Legislation passed in August 2017 legalizing fantasy sports. No formal application/registration process as of October 1, 2017
Maryland	Comptroller of the Treasury	Our registration with the state of Maryland is currently in process.
Massachusetts	Attorney General of Massachusetts	Passed legislation in 2016 that applies specifically to DFS, not season-long fantasy.
Michigan	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.

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Minnesota	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Mississippi	Mississippi Gaming Commission	Fantasy sports is legal in Mississippi. Until recently, there was no formal application/registration process. Mississippi recently released an application procedure that SportsHub is currently working through.
Missouri	Missouri Gaming Commission	Pending / Operating since October 1, 2016
Nebraska	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
New Hampshire	New Hampshire Lottery Commission	Passed legislation legalizing fantasy sports on July 18, 2017. No formal registration process in place yet.
New Jersey	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
New Mexico	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
New York	New York Gaming Commission	Temp License approved March 15, 2017
North Carolina	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Ohio	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Oklahoma	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Oregon	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Pennsylvania	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Rhode Island	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
South Carolina	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
South Dakota	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Tennessee	State of Tennessee - Dept. of State	License Approved April 17, 2017
Texas	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Utah	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Vermont	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Virginia	Office of Charitable & Regulatory Programs	Pending – Notified by Virginia to continue to operate during application review process as of August 17, 2017

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West Virginia	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Wisconsin	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.
Wyoming	N/A	No definitive position has been taken in this state indicating fantasy sports is not legal.

Canadian Jurisdictions

PROVINCE	ORGANIZATION	STATUS / DATE APPROVED
Ontario	N/A	SportsHub has determined that there are no specific laws in Canada that clearly define fantasy sports as being illegal. As such, we operate in all Canadian provinces.
British Columbia		
Quebec		
Alberta		
Nova Scotia		
Newfoundland / Labrador		
Saskatchewan		
New Brunswick		
Yukon		

DISCIPLINARY ACTIONS

There were no disciplinary actions disclosed during the course of the application review.

LITIGATION

SportsHub or CDM has not had any litigation filed against it since the formation of the company.

FINANCIAL SUITABILITY

(Provided by MGC Financial Investigator Dennis Lengyel)

Scope of Financial Evaluation

Financial evaluation of SportsHub Technology, LLC included inspection of internal accounting records for 2016, a review of audited financial statements prepared by Boulay CPAs PLLP of Minneapolis, MN for 2016, and a review of Federal and State income tax returns for 2016. Also inspected was a listing of forms 1099 issued for 2016 and an inspection of bank statements for calendar year 2016 and 2017, to date. The independent auditor's report for the year ended December 31, 2016, stated that the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the US. Further, the audit noted that the Company's future liquidity is dependent upon positive cash flows from operations, or it could be necessary to seek additional funds through equity markets or debt instruments.

Business Overview

SportsHub Technologies, LLC, formed on January 4, 2016, is a Minnesota limited liability company that designs, develops, and operates fantasy sports websites, contests, related services and products under the trade name “CDM Sports” (CDM). CDM operates some of the longest running fantasy contests in the industry which cover major league sports like baseball, football, basketball, hockey, auto racing, and golf games.

Selected Financial Information

SportsHub Technologies, LLC	
	2016
Gross Revenues	\$2,960,917
Net Income (Loss)	(\$1,089,211)
Total Assets	\$23,875,948
Total Liabilities	\$18,838,432
Total Equity	\$5,037,516

Financial Condition

SportsHub Technologies, LLC has elected to be treated for taxation as a partnership and therefore has little or no tax liability itself. All tax liabilities are paid by the partners. The net loss of \$(1,089,211) for 2016 was funded with members’ equity.

Player Funds Protection

SportsHub Technologies, LLC has created a separate subsidiary (SportsHub Reserve LLC) for the purpose to segregate and restrict access to players’ accounts deposits and withdrawals. SportsHub Reserve LLC established a custodial account with Platinum Bank, for a cash reserve to be held in trust for the benefit of Missouri Players. On 2/12/18, the balance in the cash reserve account was \$49,168.19, which reflects the funds held on site of all users verified as Missouri residents. The player liability reported by SportsHub Technologies, LLC, as of 1/31/18, was \$49,168.19, which indicates this account has been adequately funded.

Financial Concerns

The viability of the company’s long term survival is a concern. SportsHub Technologies, LLC did not make a profit during its first year of operations and must rely on owner funds being injected on a regular basis to survive. The company has entered into practices of funds segregation. Should the company fail, the separate company and bank account created to segregate player funds should provide adequate protection to ensure funds are returned to Missouri players.

Business Credit Profile

A review of the Experian Business Credit Profile, dated September 25, 2017, indicates SportsHub is an active business in good standing with no derogatory information reported.

Taxes

SportsHub received a tax clearance letter from the Missouri Department of Revenue on October 4, 2017. There were no issues uncovered related to SportsHub's tax obligations during the course of this investigation.

KEY PERSONS

Section 313.935.2, RSMo states: "As part of the commission's investigation and licensing process, the commission may conduct an investigation of the fantasy sports contest operator's employee's, officers, directors, trustees, and principal salaried executive staff officers..." See 11 CSR 45-40.010(6). The investigative checks of the employees listed below, included the following:

- FBI Fingerprint check
- MULES/NCIC Check
- MGC Personal Disclosure Form

The following individuals were identified by the MGC as Key Persons due to their association with SportsHub and CDM:

NAME	POSITION
Robert C. Phythian	Chief Executive Officer
Welton John Brison	General Manager - Saint Louis Division
Henry C. Eirich	Chief Technology Officer - Saint Louis Division
Charles F. Wiegert	Vice President of Marketing - Saint Louis Division
Scott J. Pollei	Independent Director

ASSOCIATED INVESTIGATIONS

There are no known associated investigations related to SportsHub or CDM.

DISCREPANCIES & CONCERNS

There were no discrepancies discovered during the documentation of statutory compliance.