

STATE OF WASHINGTON
GAMBLING COMMISSION

In the Matter of the Suspension or)
Revocation of the Licenses to) NO. CR 2010-00789
Conduct Gambling Activities of:)
)
Parker's Sport Bar & Casino) **NOTICE OF ADMINISTRATIVE**
Shoreline, Washington,) **CHARGES AND OPPORTUNITY**
) **FOR AN ADJUDICATIVE**
) **PROCEEDING**
Licensee.)
_____)

Rick Day alleges as follows:

I.

He is the Director of the Washington State Gambling Commission and makes these charges in his official capacity.

II.

Jurisdiction of this proceeding is based on Chapter 9.46 RCW, Gambling, Chapter 34.05 RCW, the Administrative Procedure Act, and WAC Title 230.

III.

The Washington State Gambling Commission issued Parker's Sports Bar & Casino, 17001 Aurora Avenue N., Shoreline, Organization Number 00-13542, the following licenses:

Number 67-00027, Authorizing Class "12" House-Banked Card Room Activity;
Number 05-07549, Authorizing Class "B" Punchboard/Pull-Tab Activity; and
Number 53-01099, Authorizing Class "A" Amusement Game Activity.

These licenses, which expire on September 30, 2010, were issued subject to the licensee's compliance with state gambling laws and regulations.

IV.

SUMMARY:

The licensee failed to timely disclose the material fact of a new substantial interest holder, and failed to submit its financial statement for 2009.

FACTS:

1) Geordie Sze owns Slam Dunk Entertainment, which wholly owns 17001, Inc., and does business as Parker's Sports Bar & Casino. In October 2009, Mr. Sze and Seven Diamonds, through, Tim Iszley, entered into a purchase and sale agreement for Parker's. Tim Iszley wholly owns TI Gaming, LLC, which in turn, wholly owns Seven Diamonds. Seven Diamonds applied for a 15-table, house-banked card room, and class "E" punchboard/pull-tab license, on March 22, 2010.

2) While reviewing Seven Diamonds' application, a Commission Special Agent (agent) from the Financial Investigations Unit found the licensee had failed to timely disclose¹ an employment agreement made between the licensee and Seven Diamonds. The licensee did not disclose the agreement, dated January 20, 2010, to the agent until April 15, 2010.

3) The terms and conditions of the employment agreement between the licensee and Mr. Iszley altered Mr. Iszley's status from that of a buyer, to a substantial interest holder of Parker's. A substantial interest holder is defined in WAC 230-03-045(1) as "a person who has actual or potential influence over the management or operation of any organization, association, or other business entity." The employment agreement between the licensee and Mr. Iszley contained in part, the following recitals, terms and conditions, which are evidence that Mr. Iszley holds a substantial interest in Parker's:

- a) Mr. Iszley is designated an "Officer," who "shall perform all services hereunder as an employee."
- b) "Slam Dunk desires to retain Officer to oversee management and operate Parker's Casino until the date Slam Dunk sells Parker's Casino . . . "
- c) "Officer shall be responsible for operating Parker's Casino on behalf of Slam Dunk."
- d) Mr. Iszley is responsible for all expenses associated with the day-to-day operations, including, but not limited to:
 - i) Employee wages and salaries, rents, insurance and vendor contracts, and maintenance of the building.
 - ii) All expenses accruing under leases, taxes, casino winnings, leases and any other expense of Parker's Casino set forth on the casino's profit and loss statement.

¹ WAC 230-06-080 requires licensees to notify the Commission in writing if any information filed with its original application changes in any way within 30 days of the change.

- e) Mr. Iszley shall be entitled to retain all other income generated by Parker's Casino, with all cash flow losses added to the note in the purchase and sales agreement between Mr. Iszley and Parker's Casino.
- 4) Further evidence of Seven Diamond's substantial interest in Parker's includes the following:
- a) On June 30, 2010, Parker's controller, Mark Jones, told the agent that the licensee did not have any personnel records, W-4 forms, W-2 forms, social security forms, or other typical employee tax withholding forms on file for Mr. Iszley.
 - b) An agreement, dated March 23, 2010, states that Mr. Iszley is to pay Mr. Sze's \$50,000 loan to Parker's, back to Mr. Sze, at closing, and that Mr. Iszley will pay any taxes incurred by Parker's from January 1, 2010, at closing.
 - c) A second amendment to the employment agreement dated April 8, 2010, states that Mr. Iszley, "agrees to provide \$25,000 in non-refundable monies towards his obligations under the employment agreement, to be credited as required in said agreement at closing."
 - d) A third amendment to the employment agreement, dated April 9, 2010, states that Mr. Iszley must pay Mr. Sze's \$25,000 loan to Parker's, back to Mr. Sze at closing.
 - e) A fourth amendment to the employment agreement, dated June 1, 2010, states that, "when calculating cash flow losses otherwise owed by Iszley under the Agreement, the base rent for the premises from January 1, 2010 through May 31, 2010 shall be deemed to be \$11,000 per month (in addition to triple net expenses) . . ."

The amendment also states that Mr. Iszley agrees to pay half of the licensee's tax liabilities, and that Mr. Iszley agrees to pay \$250,000 to Mr. Sze, "which shall be applied to the obligations of Iszley under the Agreement . . ."

- 5) The agent verified that Mr. Iszley paid \$250,000 from his personal bank account to settle the licensee's unpaid taxes on June 4 and June 15, 2010. When the agent asked Mr. Iszley how the licensee accounted for this in its financial statements, Mr. Iszley did not provide an answer, but acknowledged that a licensee would typically record such a cash payment in its accounting system, both as a payment of taxes, and as a capital contribution.
- 6) The agent reviewed the licensee's records and observed that as of June 30, 2010, Mr. Sze, the licensee's owner, contributed \$1,000 into the licensee's capital account, which was 250 times less than the amount contributed by Mr. Iszley.

7) Mr. Iszley and Mr. Sze acknowledged to the agent on June 22 and June 30, 2010, that the employment agreement appeared to be more of an ownership agreement than an employer-employee agreement. Commission staff has never approved a transfer of licenses from Parker's to Seven Diamonds, or to Tim Iszley.

8) The licensee also failed to submit its financial statement for the year ending December 31, 2009. The statement was due April 30, 2010, but Commission staff approved a 60-day extension, making the statement due on June 30, 2010. Despite the extension, as of August 3, 2010, the licensee has not submitted its statement. The licensee, through its owner, Mr. Sze, said he expected the sale of Parker's to close a lot sooner, and never ordered the review for his financial statement.

VIOLATIONS:

1) **RCW 9.46.075(1)** provides that the Commission may suspend or revoke any license for any reason it deems to be in the public interest, including when the licensee has violated, failed or refused to comply with the provisions, requirements, conditions, limitations, or duties imposed by Chapter 9.46 RCW or any rules adopted by the Commission.

2) **WAC 230-03-085(1)** provides that the Commission may suspend or revoke any and all licenses of any holder, when the holder, or any other person with any interest in the holder commits any act that constitutes grounds under RCW 9.46.075 for suspending or revoking licenses, or commits any other act that the Commission determines constitutes a sufficient reason in the public interest for suspending or revoking licenses.

3) **RCW 9.46.075(7)** provides that the Commission may suspend or revoke any license for any reason it deems to be in the public interest, including when the licensee makes a misrepresentation of, or fails to disclose, a material fact to the Commission.

4) **WAC 230-03-085(7)** provides that the Commission may suspend or revoke any and all licenses of any holder, when the holder, or any other person with any interest in the holder, fails to provide us with any information required under Commission rules within the time required.

5) **WAC 230-06-080(1) and (2)(b)** provide that licensees must notify us in writing if any information filed with the application changes in any way within thirty days of the change, including all oral or written contracts and agreements that relate to gambling activities or that alter the organizational structure of the licensee's organization or business.

6) **WAC 230-06-106** provides that gambling licenses must not be transferred to another person or entity until the licensee requesting the transfer has received written approval from us.

7) **WAC 230-06-107** provides that a licensee must report any change in ownership when the change would result in any person or organization becoming a substantial interest holder.

The terms and conditions of the employment agreement between the licensee and Tim Iszley altered Mr. Iszley's status from that of a buyer, to a substantial interest holder of the licensee, Parker's Sports Bar and Casino. The employment agreement contained evidence that Mr. Iszley holds a substantial interest in Parker's. The licensee did not disclose the employment agreement, dated January 20, 2010, until April 15, 2010, violating WAC 230-06-080.

The licensee failed to obtain approval to transfer its licenses, violating WAC 230-06-106. The licensee also failed to disclose the material fact of Mr. Iszley's substantial interest in Parkers, violating WAC 230-06-107.

A substantial interest holder is defined in WAC 230-03-045(1) as "a person who has actual or potential influence over the management or operation of any organization, association, or other business entity." WAC 230-03-045(2) provides that evidence of substantial interest may include, but is not limited to:

(a) Directly or indirectly owning, operating, managing, or controlling an entity or any part of an entity; or

(b) Directly or indirectly profiting from an entity or assuming liability for debts or expenditures of the entity; or

(c) Being an officer or director or managing member of an entity; or

(d) Owning ten percent or more of any class of stock in a privately or closely held corporation; or

(e) Owning five percent or more of any class of stock in a publicly traded corporation; or

(f) Owning ten percent or more of the membership shares/units in a privately or closely held limited liability company; or

(g) Owning five percent or more of the membership shares/units in a publicly traded limited liability company; or

(h) Providing ten percent or more of cash, goods, or services for the start up of operations or the continuing operation of the business during any calendar year or fiscal year. To calculate ten percent of cash, goods, or services, take the operational expenses of the business over the past calendar or fiscal year, less depreciation and amortization expenses, and multiply that number by ten percent; or

(i) Receiving, directly or indirectly, a salary, commission, royalties, or other form of compensation based on the gambling receipts.

8) **WAC 230-15-740(2) and (3)** requires licensees to submit financial statements covering all financial activities for each business year within 120 days following the end of their business year. We may authorize a sixty-day extension if the licensee submits a written request explaining the need for the extension.

As of August 3, 2010, the licensee has not submitted its financial statement for 2009, violating WAC 230-15-740.

Because the licensee violated WAC 230-06-080, WAC 230-06-106, WAC 230-06-107 and WAC 230-15-740, grounds exist to suspend or revoke Parker's Sports Bar and Casino's licenses under RCW 9.46.075(1) and (7), and WAC 230-03-085(1) and (7).

V.

The facts and violations set forth in paragraph IV above constitute grounds for suspending or revoking the licenses issued to Parker's Sports Bar & Casino to conduct gambling activity pursuant to RCW 9.46.075 and WAC 230-03-085.

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VI.

Jurisdiction of this proceeding is based on 9.46 RCW, Gambling, chapter 34.05 RCW, the Administrative Procedure Act, and WAC Title 230.

The licensee will have the opportunity to have a hearing on the alleged violations. **In order to have a hearing or discuss settlement options**, the enclosed request for hearing must be completed and returned to the Gambling Commission **within 23 days** from the date of the mailing of this notice.

Based on RCW 34.05.440, failure to return a request for hearing will result in the entry of a default order REVOKING your licenses.

STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

Rick Day, being duly sworn on oath, says: That he has read this Notice of Administrative Charges and Opportunity for An Adjudicative Proceeding, knows the contents of it, believes it to be true, that he is the Director of the Washington State Gambling Commission, and in that capacity has executed said Notice.

Dail E. Ruyter on behalf of
RICK DAY, DIRECTOR

SUBSCRIBED AND SWORN TO before me
this 5 day of August, 2010.

Michelle M. Pardee
NOTARY PUBLIC in and for the State of
Washington residing at LACEY
My Commission expires on June 16, 2013



STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

I hereby certify that I have this day served a copy of the document upon all parties of record in the proceeding by mailing a copy thereof, properly addressed with postage prepaid, by regular and certified mail to each party to the proceeding or his or her attorney or authorized agent.

Dated at Olympia, Washington this 5th day of August, 2010

Margaret Petal

Communications and Legal Department
Washington State Gambling Commission



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