

STATE OF WASHINGTON  
GAMBLING COMMISSION

In the Matter of the Suspension or Revocation of )  
the Licenses to Operate Gambling Activities )  
of: )  
)  
)  
)  
Freddie's Club )  
Renton, Washington, )  
)  
Licensee. )  
\_\_\_\_\_ )

No. CR 2013-00593  
*No. CR 2013-01680*

**AMENDED**  
**NOTICE OF ADMINISTRATIVE**  
**CHARGES AND OPPORTUNITY**  
**FOR AN ADJUDICATIVE**  
**PROCEEDING**  
*(Amendments appear in italics*  
*and strikeouts)*

I.

The Washington State Gambling Commission issued Freddie's Club, organization number 00-16694, the following licenses:

- Number 05-09169, authorizing class "F" Punchboard Pull-Tab activity;
- Number 67-00048, authorizing class "15" Housebanked Card Room activity.

The licenses expire on September 30, 2013, and were issued subject to the licensee's compliance with state gambling laws and rules.

II.

David Trujillo, Director of the Washington State Gambling Commission, charges the licensee with the following violations of the Washington State Gambling Act, 9.46 RCW and WAC Title 230:

**SUMMARY:**

Freddie's Club operated a house-banked card room with a progressive jackpot<sup>1</sup> that paid for expenses other than progressive jackpot prizes from February 2013 through May of 2013. The licensee also failed to provide information regarding three cash transfers between Diamond Lil's and Freddie's Club. In addition, the licensee failed an underage compliance check. *In addition, Freddie's Club failed to submit annual financial statements for fiscal year ending December 31, 2012.*

<sup>1</sup> House-banked card game licensees may operate progressive jackpot prizes with certain approved house-banked games. The manufacturers' game rules determine the winning patterns or combination of cards needed to win the progressive jackpot prize. A player places a separate wager of which part of it accrues to the progressive jackpot prize.

## FACTS:

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1) On March 11, 2013, a Washington State Gambling Commission Special Agent (agent) received a call from Lori Bender, President for the GSG Corporation, and owner of Freddie's Club. She proceeded to say that she withdrew approximately \$50,000 from the licensee's progressive jackpot bank account to pay operating expenses. The agent asked her if she was aware this was a violation, she said, "yes."

2) On March 22, 2013, the agent received the progressive jackpot reconciliation for the month of February 2013 from Celeste Martinez, accounting supervisor. This included a copy of the reconciliation, bank statements for the progressive jackpot bank account, and the progressive jackpot accrual records for the three house-banked progressive games in play.

3) According to the February 2013 progressive jackpot reconciliation, the ending balance for the progressive jackpot fund was \$152,196.87. The agent compared the amount to the progressive jackpot accrual records. The ending balance was separated by game as follows:

- Progressive Pai Gow (PPG)- \$109,526.11
- Progressive Four Card Poker (PFCP)- \$13,125.02
- Progressive Ultimate Texas Hold'em (PUTH)- \$29,545.74
- **Total- \$152,196.87<sup>2</sup>**

According to the reconciliation, the ending balance in the progressive jackpot bank account was \$100,277.85. This balance agreed with the bank statement that was provided. The licensee reconciled the bank statement with the progressive jackpot accrual records and noted the bank account was missing \$50,000.

4) According to the accrual records, the total for the main jackpot was \$143,750.52. Out of the \$152,196.87 from the progressive jackpot reconciliation, \$143,750.52 was the amount advertised to the players as an available prize. This amount was separated by game as follows:

- PPG- \$103,470.46
- PFCP- \$11,943.72
- PUTH- \$28,336.34
- **Total-\$143,750.52**

5) The licensee had enough funds in their bank account to pay the PPG prize for this date. There were sufficient funds to pay the PFCP and PUTH prize, provided they did not have to pay the PPG prize.

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<sup>2</sup> Includes the back-up jackpot, this is the amount that is not posted or advertised to players.

6) The agent later obtained from Ms. Bender a copy of check #1001 from Freddie's jackpot account. The check was issued to a payee identified as Robert Dwyer on February 13, 2013, for the amount of \$28,000. This was for a prize won on the house-banked game "Blackjack Tie." This game does not have a progressive jackpot prize. This prize should have not been paid out of the progressive jackpot bank account. On February 15, 2013, \$28,000 was deposited back into the progressive jackpot bank account.

7) On May 15, 2013, Ms. Martinez provided the agent the progressive jackpot reconciliation for the month of March 2013. This included a copy of the reconciliation, bank statement for the progressive jackpot bank account and the progressive jackpot accrual records for the three house-banked games in play.

8) According to the March 2013 progressive jackpot reconciliation, the ending balance for the progressive jackpot fund was \$157,177.37. The agent compared this amount to the progressive jackpot accrual records. PFCP was discontinued on March 29, 2013, and these funds were combined with PUTH. The ending balance was separated by game as follows:

- Progressive Pai Gow (PPG)- \$112,165.11
- Progressive Four Card Poker (PFCP)- \$0.00
- Progressive Ultimate Texas Hold'em (PUTH)- \$45,012.26
- **Total- \$157,177.37**

According to the reconciliation, the ending balance in the progressive jackpot bank account was \$108,512.10. This balance agreed with the bank statement that was provided. The licensee reconciled the bank statement with the progressive jackpot accrual records and noted the bank account was missing \$50,000.

9) According to the accrual records, the total for the main jackpot was \$145,024.72. This is the amount that was posted to the players as an available prize. This amount was separated by game as follows:

- PPG- \$102,871.46
- PFCP- \$0.00
- PUTH- \$42,153.26
- **Total- \$145,024.72**

The licensee would be able to pay either the PPG or the PUTH prize on this date, but they did not have enough funds to pay both of these prizes.

10) On April 14, 2013, Ms. Bender faxed the agent a copy of the online bank statement showing the Freddie's Club bank account balances from their progressive jackpot accrual records.

11) The bank statement showed the progressive jackpot balance was \$83,044.31. According to the accrual records the balance should have been \$133,548.23. The licensee's bank account was

missing \$50,503.92.

12) According to the accrual records, the total for the main jackpot was \$120,049.78. This is the amount that was posted to the players as an available prize. The amount was separated by game as follows:

- PPG- \$77,530.72
- PUTH- \$42,519.06
- **Total- \$120,049.78**

The licensee would be able to pay either the PPG or the PUTH prize on this date, but they did not have enough funds to pay both of these prizes.

13) According to the online bank statement, Freddie's Club had the following account balances for April 15, 2013:

- Freddie's Tokes- \$226.33
- Freddie's General- (\$14,007.05)
- Freddie's Payroll- \$4,283.33
- Freddie's Pai Gow- \$0.00
- Freddie's 3 Card Poker- \$0.00
- Freddie's Jackpot Acc- \$83,044.31

14) On May 2, 2013, the agent asked Ms. Bender to provide a copy of her online bank statement documenting Freddie's Club bank account balances. She refused to provide the current bank balance. The agent asked her if she was able to reimburse the progressive jackpot bank account. She said, "no." The agent gave her until May 6, 2013, to provide the bank balances and submit a plan on when she would reimburse the progressive jackpot.

15) On May 6, 2013, Ms. Bender faxed a copy of her online bank statement. According to the fax cover sheet, she stated she would reimburse the progressive jackpot account by May 13, 2013. The bank statement stated the progressive jackpot bank balance was \$72,801.51, for this date. The agent reviewed the cashier cage records for this date and determined the licensee started the gaming day with \$35,573 in the cage.

16) On May 7, 2013, the agent obtained a copy of the progressive jackpot accrual records from Ms. Martinez for the period of May 1, 2013 to May 6, 2013. According to the accrual records, the progressive jackpot balance was \$123,006.93 on May 6, 2013. The licensee's bank account was missing \$50,205.42.

17) According to the accrual records, the total for the main jackpot was \$122,073.08. This is the amount that was posted to the players as an available prize. This amount was separated by game as follows:

- PPG- \$79,081.82
- PUTH- \$42,991.26
- **Total-\$122,073.08**

The licensee did not have enough funds in this bank account to immediately pay the PPG prize for this date. If the licensee combined the funds from the cashier cage and the bank, they would be able to pay the PPG prize. However, they did not have sufficient funds to pay the PPG and PUTH prize.

18) According to the online bank statement, Freddie's Club had the following account balances for the date of May 6, 2013:

Freddie's Tokes- \$9,297.88  
 Freddie's General- \$1,699.92  
 Freddie's Payroll- \$3,587.13  
 Freddie's Jackpot Acct.- \$72,801.51.

19) During the months of January and February 2013, the licensee made the following cash transfers with Diamond Lil's, which GSG also owns:

- January 15, 2013, the licensee transferred \$20,000 from Diamond Lil's to the Freddie's Club;
- February 1, 2013, the licensee transferred \$15,000 from Freddie's Club to Diamond Lil's; and
- February 21, 2013, the licensee transferred \$20,000 from Freddie's Club to Diamond Lil's.

The licensee did not notify Commission staff of these cash transfers between the two licensees, as required.

20) On May 30, 2013, an underage compliance check was completed. The underage operative was allowed to play multiple hands at the Spanish 21 gaming table.

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*21) On August 13, 2013, an agent was assigned to investigate Freddie's Club's failure to submit required annual financial statements for the fiscal year ending December 31, 2012. The statements were due by April 30, 2013.*

*22) On April 30, 2013, Freddie's Club requested an extension. The extension was granted and the licensee was given a new deadline of June 30, 2013.*

*23) On June 29, 2013, Ms. Bender notified the agent that Freddie's Club did not have adequate funds to pay for the financial statements to be completed.*

24) On July 1, 2013, the financial statements had not been received. Ms. Bender stated that Freddie's was planning on bringing in a new partner who was planning on lending additional funds to Freddie's. Ms. Bender requested a second extension, which was denied. Ms. Bender informed Commission staff that the financial statements would not be forthcoming.

#### **VIOLATIONS:**

##### **1) RCW 9.46.075 Denial, suspension, or revocation of license**

The Commission may deny an application, or suspend or revoke any license or permit issued by it, for any reason or reasons, it deems to be in the public interest. These reasons shall include, but not be limited to, cases wherein the applicant or licensee, or any person with any interest therein, (The following subsection applies.)

(1) Has violated, failed or refused to comply with the provisions, requirements, conditions, limitations or duties imposed by chapter 9.46 RCW and any amendments thereto, or any rules adopted by the Commission pursuant thereto, or when a violation of any provision of chapter 9.46 RCW, or any Commission rule, has occurred upon any premises occupied or operated by any such person or over which he or she has substantial control.

##### **2) WAC 230-03-085 Denying, suspending, or revoking an application, license**

We may deny, suspend, or revoke any application, license or permit, when the applicant, licensee, or anyone holding a substantial interest in the applicant's or licensee's business or organization,

(The following subsections apply.)

(1) Commits any act that constitutes grounds for denying, suspending, or revoking licenses or permits under RCW 9.46.075;

(3) Has demonstrated willful disregard for complying with ordinances, statutes, administrative rules, or court orders, whether at the local, state, or federal level;

(8) Poses a threat to the effective regulation of gambling, or creates or increases the likelihood of unfair or illegal practices, methods, and activities in the conduct of gambling activities, as demonstrated by: (a) Prior activities; or (b) Criminal record; or (c) Reputation; or (d) Habits; or (e) Associations.

##### **3) WAC 230-15-455 Keeping funds to pay prizes, progressive jackpot prizes, and odds-based wager prizes.**

(The following subsection applies.)

(1) House-banked card game licensees must ensure that they have sufficient funds available to pay prizes, progressive jackpot prizes and odds-based wager prizes. An "odds-based wager" means a wager where the player wins an amount over and above the amount he or she wagered if a fixed pattern or combination of cards occurs, for example, a royal flush, four aces, or a pair.

**4) WAC 230-15-680 Operating progressive jackpot prizes.**

House-banked card game licensees may operate progressive jackpot prizes with certain approved house-banked card games.

(The following subsection applies.)

(5) Licensees must ensure that they closely control progressive jackpot games and account for all the funds collected.

**5) WAC 230-15-695 Adjusting progressive jackpot amounts.**

House-banked card game licensees must not reduce the amount of a progressive jackpot prize accrued or displayed except for the following reasons:

(The following subsections apply.)

(1) To reduce the jackpot and the advertised amount by the amount won; or

(2) To correct an amount displayed incorrectly because of malfunctioning equipment; or

(3) To correct the display when the amount displayed is greater than the predetermined maximum prize limit; or

(4) To reduce a reserve or secondary jackpot as long as they record the funds removed as gross receipts and properly documented that in their records; or

(5) To reduce a reserve or secondary jackpot to recover seed money that was not taken from gross receipts, if they properly document those funds in their records; or

(6) To reduce the jackpot by the dollar amount they paid for merchandise they award as prizes.

(7) To reduce a reserve or secondary jackpot to immediately seed a different progressive jackpot if the licensee properly documents this transfer in their records.

**6) WAC 230-06-080 Report changes to application information and submit updated documents and information.**

(The following subsection applies.)

(2) Licensees must submit to us any new or updated documents and information, including the following:

(c) All cash or asset contributions, draws from lines of credit, and loans (except those from recognized financial institutions) during any calendar year which by themselves or totaled together are more than ten thousand dollars. Cash or asset contributions do not include donations to licensed charitable or nonprofit organizations.

**7) WAC 230-06-010 Age restrictions for players.**

No person must allow anyone under the age of eighteen to participate in gambling activities except:

(The following subsections apply.)

- (1) To play in licensed bingo games when accompanied by an adult member of his or her immediate family or a guardian, who is at least eighteen years old:
  - (a) "Immediate family" means only the spouse, parents, or grandparents of an individual; and
  - (b) "Guardian" means only a court-appointed, legal guardian of an individual; or
- (2) To play bingo at agricultural fairs or school carnivals; or
- (3) To play amusement games; or
- (4) To sell raffle tickets for a charitable or nonprofit organization that:
  - (a) Has development of youth as a primary purpose; and
  - (b) Has at least three members or advisors who are at least eighteen years old and who supervise the operation of the raffle; and
  - (c) Has an adult member or advisor designated as the manager for the raffle.

**8) WAC 230-15-740 Preparing required financial statements.**

(The following subsection applies.)

*(2) House-banked card game licensees must submit financial statements covering all financial activities of the licensees' business premises for each business year within one hundred twenty days following the end of their business year.*

From February through May 2013, the licensee operated progressive house-banked games when they did not have sufficient funds in the bank account to pay all of the progressive prizes, in violation of WAC 230-15-455. The licensee willfully took approximately \$50,000 from the progressive jackpot bank account to pay other expenses, in violation of WAC 230-15-680 and WAC 230-15-695. The licensee failed to provide information regarding three cash transfers, in violation of WAC 230-06-080. In addition, the licensee allowed a person under the age of eighteen to participate in gambling activity, in violation of WAC 230-06-010. *The licensee also failed to submit required financial statements for the fiscal year ending December 31, 2012, in violation of WAC 230-15-740.* Therefore, grounds exist for the suspension or revocation of Freddie's Club's licenses to operate gambling activities, based on RCW 9.46.075(1), and WAC 230-03-085(1), (3), and (8).

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III.

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 )

David Trujillo, 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.

David Trujillo  
DAVID TRUJILLO, DIRECTOR

SUBSCRIBED AND SWORN TO before me  
this 20 day of September, 2013.

Maureen Pretell  
NOTARY PUBLIC in and for the State of  
Washington residing at Thurston County  
My commission expires on December 2, 2015

STATE OF WASHINGTON )  
 )  
COUNTY OF THURSTON )

I certify I have this day served a copy of the document upon all parties of record in the proceeding by mailing a copy, property 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 20 day of September, 2013  
Maureen Pretell



