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BEFORE THE
CALIFORNIA GAMBLING CONTROL COMMISSION

In the Matter of the Application for a Third-Party Proposition Player Services License for:

East Sea Investment Group, Inc., Jiahua Yu, Chief Executive Officer, Shareholder, Director, Wanchun Huang, President, Chief Financial Officer, Shareholder, Director

Applicants.

CGCC Case Nos. CGCC-2021-0107-11
BGC Case No. BGC-HQ2021-00009SL

DECISION AND ORDER

Hearing Date: March 7, 8, and 9, 2022
Time: 9:00 a.m.

This matter was heard by the California Gambling Control Commission (Commission) pursuant to Business and Professions Code sections 19870 and 19871 and Title 4, California Code of Regulations (CCR) section 12060, in Sacramento, California, and held via Zoom video conference, on March 7, 8, and 9, 2022.

Jeremy Stevens, Deputy Attorney General, State of California (DAG Stevens), represented complainant Yolanda Morrow, Acting Director of the Bureau of Gambling Control (Bureau), Department of Justice, State of California.

Attorney Tiffany Conklin-Lichtig (Attorney Lichtig) was present and represented the applicants at the hearing. Applicants Jiahua Yu and Wanchun Huang were also present.

Certified Mandarin Interpreter, Ya-Nan Chou, was also present and provided interpreting services for the applicants.

During the evidentiary hearing, Presiding Officer Russell Johnson (Presiding Officer) took official notice of the following documents: the Commission’s Notice and Agenda of Commission Hearing, the Commission’s Conclusion of Prehearing Conference letter, the Commission’s Notice of Time Change for Hearing, the Commission’s Notice of Hearing with two attachments: (a) the Applications for Third-Party Proposition Player Services License for East Sea Investment Group and its owners, and (b) the Bureau’s Third-Party Provider of Proposition Player Services Initial Background Investigation Report; the Bureau’s First Amended Statement of Reasons, and the applicants’ signed Notice of Defense.

1 During the evidentiary hearing, the Presiding Officer accepted into evidence Exhibits 1
2 through 10 offered by the Bureau, which contain bates numbering BGC-0001 to BGC-0405 with
3 a Table of Contents that separately identifies each document.

4 During the evidentiary hearing, the Presiding Officer accepted into evidence Exhibits A
5 through I offered by the Applicants, which contain bates numbering ESI001 to ESI111, with a
6 Table of Contents that separately identifies each document.

7 **FINDINGS OF FACT**

8 **Procedural History**

9 1. East Sea Investment Group, Inc. (East Sea) was formed on March 28, 2016 and is
10 owned by applicants Wanchun Huang (Applicant Huang) and Jiahua Yu (Applicant Yu).

11 2. On September 19, 2016, the Commission issued a Third Party Primary Provider
12 Registration to East Sea, and Third Party Owner Registrations to Applicants Yu and Huang.

13 3. On August 30, 2017, Applicants submitted an Appointment of Designated Agent for
14 Owners and Proposition Players form designating Elijah Zuniga (DA Zuniga) as their Designed
15 Agent.

16 4. On September 6, 2017, the Bureau received Applications for Third Party Proposition
17 Player Service License for Business Entities and Owners and Level III Supplemental Information
18 forms, dated August 30, 2017, for East Sea, and Applicants Huang and Yu (collectively,
19 “Applicants” and “Applications”).

20 5. On or about September 24, 2020, the Commission received a Third-Party Provider of
21 Proposition Player Services Initial Background Investigation Report, Level III, on the
22 Applications from the Bureau (Bureau Report). The Bureau Report recommends that the
23 Commission deny the Applications on the basis that the majority of the start-up capital invested
24 in, and loaned to East Sea, derived from funding sources that did not file applications for
25 registration or licensure with the Commission (unregistered funding sources).

26 6. On October 5, 2020, Applicants submitted an Appointment of Designated Agent for
27 Owners and Proposition Players form designating Attorney Lichtig as their Designated Agent.
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1 7. At its January 7, 2021 meeting, the Commission referred consideration of the
2 Applications to a Gambling Control Act (GCA) evidentiary hearing to be held pursuant to CCR
3 section 12054(a)(2).

4 8. The Commission received Notice of Defense forms signed by Attorney Lichtig on
5 March 18, 2021, on behalf of the Applicants, which requested an evidentiary hearing on the
6 consideration of the Applications.

7 9. On or about June 4, 2021, the Commission sent a Notice of Hearing to Applicants and
8 DAG Stevens, providing that an evidentiary hearing would be held before the Commission on
9 March 7-9, 2022 at 10 a.m.

10 10. On December 1, 2021, the Commission sent a Notice of Time Change for Hearing to
11 Applicants and DAG Stevens changing the starting time for the hearing to 9 a.m.

12 11. On September 24, 2020, the Commission received the Bureau's Statement of Reasons
13 wherein the Bureau requests that the Commission deny the Applications on the basis of East Sea
14 having unregistered funding sources.

15 **Applicant Huang's Initial Investment and Loan to East Sea**

16 12. Applicant Huang is the President of East Sea with a 55% ownership interest.

17 13. On March 31, 2017, Applicant Huang obtained an unsecured \$5.5 million loan from
18 her father-in-law, Daopan Huang (Lender #1). The terms of the loan were reflected in a
19 promissory note signed by Applicant Huang on March 28, 2017 (Huang Note). The purpose of
20 the loan reflected in Huang Note was to fund Huang's investment in East Sea. Lender #1 wired
21 \$5.5 million pursuant to the Huang Note directly into East Sea's bank account.

22 14. The Huang Note provides that Applicant Huang agrees to pay Lender #1 the amount
23 of \$5.5 million plus 2.5% interest, in monthly payments of \$90,000, beginning on August 1,
24 2017. March 31, 2017, Applicant Huang loaned East Sea \$3.85 million. The loan terms were
25 contained in a promissory note providing that East Sea would repay Applicant Huang \$3.85
26 million plus interest, in equal monthly installments of \$65,000, beginning on August 1, 2017
27 (East Sea Note #1). Applicant Huang signed the Huang Note on February 28, 2017.
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1 15. Also on March 31, 2017, Applicant Huang invested \$1.65 million in startup capital for
2 East Sea in exchange for her shares.

3 16. During the course of conducting a background investigation pertaining to the
4 Applicants, the Bureau made a number of requests for additional information. On February 6,
5 2018, the Bureau asked for proof that on April 1, 2017, Applicant Huang began receiving
6 payments from East Sea pursuant to the Huang Note.

7 17. On February 10, 2018, DA Zuniga responded to the Bureau on Applicants' behalf and
8 explained that payments pursuant to the Huang Note and the East Sea Note #1 did not begin on
9 August 1, 2017 because "the business (East Sea Investment Group via Majesty Partners) has not
10 begun operating," and there was a verbal agreement between Applicant Huang and Lender #1 that
11 payments would not begin until after East Sea began operations.

12 18. On February 28, 2018, the Bureau requested additional information from Applicant
13 Huang, including the following: (1) the purpose of the Huang Note; (2) the source of funds for the
14 East Sea Note #1; and (3) addendums to the Huang Note and East Sea Note #1 that reflect the
15 amended payment schedules.

16 19. In a letter dated March 9, 2018, DA Zuniga responded to the Bureau on Applicants'
17 behalf stating that the purpose of the loan evidenced by the Huang Note was to provide startup
18 capital for East Sea. DA Zuniga also explained that the Huang Note was the source of funds for
19 the East Sea Note #1. DA Zuniga stated that addendums to the promissory notes were
20 forthcoming.

21 20. An addendum to the Huang Note was signed by Lender #1 and Applicant Huang on
22 March 9, 2018. Also on March 9, 2018, an addendum to the East Sea Note #1 was signed by
23 Applicant Huang. Both addendums were provided to the Bureau and contained the same
24 provision that "the first payment shall be on the first day of the month after operations begin. If
25 operations do not begin by August 1, 2018, the total balance is due and payable with interest
26 included."

27 21. On March 13, 2018, the Bureau inquired as to why the funds loaned pursuant to the
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1 Huang Note were paid directly to East Sea rather than to Applicant Huang. Applicant Yu
2 responded in an email message that was forwarded by DA Zuniga to the Bureau on March 15,
3 2018, that Lender #1 knew that the purpose of the loan was to fund Applicant Huang's investment
4 in East Sea, and therefore, Lender #1 issued checks directly to East Sea.

5 22. East Sea began making payments to Applicant Huang on August 10, 2018, pursuant to
6 the East Sea Note #1. The source of the funds for payments to Applicant Huang was money
7 generated within the Bicycle Casino by Majesty Partners, LLC (Majesty), also a third-party
8 provider of proposition player services, which as discussed later in this decision, is co-owned by
9 East Sea. The loan was paid in full on July 9, 2019.

10 23. Applicant Huang began making payments to Lender #1 on August 21, 2018, pursuant
11 to the Huang Note. The source of funds for payments to Lender #1 was Applicant Huang's
12 personal bank account and comprised of her monthly salary as President of East Sea (\$60,000),
13 occasional dividends from East Sea, and monthly loan repayments from East Sea on the Huang
14 Note (\$65,000). Applicant Huang repaid Lender #1 from her personal account in the amount of
15 \$90,000 a month, with the exception of the final payment, which was paid directly from East
16 Sea's bank account. Lender #1 was repaid in full on July 16, 2019.

17 **Applicant Yu's Investment and Loan to East Sea**

18 24. Applicant Yu is the Chief Executive Officer of East Sea with a 45% ownership
19 interest.

20 25. On January 23, 2017, Applicant Yu obtained an unsecured loan for \$4.3 million from
21 a personal friend, Liquan Zhu (Lender #2). The terms of the loan were reflected in a promissory
22 note signed by Applicant Yu on January 20, 2017 (Yu Note). The purpose of the loan reflected in
23 the Yu Note was to fund Applicant Yu's investment in East Sea.

24 26. The Yu Note provides that Applicant Yu agrees to pay Lender #2 the amount of \$4.3
25 million plus 2.5% interest, in monthly payments of \$70,000, beginning on August 1, 2017.

26 27. Lender #2 funded the loan to Applicant Yu on January 23, 2017 by issuing two checks
27 to East Sea for \$1.9 million and \$2.9 million, respectively.
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1 28. Originally, Applicant Yu's ownership was expected to be 50%, but he reconsidered
2 being an equal partner, and ultimately it was decided that he would only hold a 45% ownership
3 interest in East Sea. Subsequently, Applicant Yu returned \$500,000 to Lender #2.

4 29. Also on January 23, 2017, Applicant Yu loaned East Sea \$3.15 million. The loan
5 terms were contained in a promissory note providing that East Sea would repay Applicant Yu
6 \$3.15 million plus interest, in equal monthly installments of \$50,000, beginning on August 1,
7 2017 (East Sea Note #2). The East Sea Note #2 was signed by Applicant Yu on January 20,
8 2017.

9 30. Also on January 23, 2017, Applicant Yu invested \$1.35 million in startup capital for
10 East Sea in exchange for his shares. Applicant Yu's investment of \$1.35 million comprised of
11 funds obtained pursuant to the Yu Note and a \$200,000 home equity loan.

12 31. On February 6, 2018, the Bureau asked for a number of items from Applicant Yu,
13 including: (1) proof that payments pursuant to the Yu Note and East Sea Note #2 began on
14 August 1, 2017; (2) the purpose of the Yu Note; and (2) the source of funds for the East Sea Note
15 #2.

16 32. On March 9, 2018, DA Zuniga responded to the Bureau on Applicant Yu's behalf and
17 explained that payments pursuant to the Yu Note and the East Sea Note #2 did not begin on
18 August 1, 2017 because East Sea Investment Group had not begun operating. DA Zuniga further
19 stated that the purpose of the funds derived from the loan evidenced by the Yu Note was to
20 provide startup capital for East Sea. DA Zuniga also explained that the Yu Note was the source of
21 funds for the East Sea Note #2. DA Zuniga stated that addendums to the promissory notes were
22 forthcoming.

23 33. An addendum to the Yu Note was signed by Lender #2 and Applicant Yu on March 9,
24 2018. Also on March 9, 2018 an addendum to the East Sea Note #2 was signed by Applicant Yu.
25 Both addendums were provided to the Bureau and contained the same provision that "the first
26 payment shall be on the first day of the month after operations begin. If operations do not begin
27 by August 1, 2018, the total balance is due and payable with interest included."
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1 34. On March 13, 2018, the Bureau inquired as to why the funds loaned pursuant to the
2 Yu Note were paid directly to East Sea rather than to Applicant Yu. Applicant Yu responded on
3 March 15, 2018 in an email that DA Zuniga forwarded to the Bureau, stating that Lender #2 knew
4 that the purpose of the loan was to fund Applicant Yu's investment in East Sea, and therefore,
5 Lender #2 issued checks directly to East Sea.

6 35. East Sea began making monthly payments of \$70,000 to Applicant Yu on of January
7 31, 2019, pursuant to the East Sea Note #2. The source of the funds for payments to Applicant Yu
8 was money generated within the Bicycle Casino by Majesty. The loan was paid in full on August
9 9, 2019.

10 36. Applicant Yu began making payments to Lender #2 on January 31, 2019, pursuant to
11 the Yu Note. The source of funds for payments to Lender #2 was Applicant Yu's personal bank
12 account and comprised of his monthly salary as Secretary and Chief Financial Officer of East Sea
13 (\$30,000), occasional dividends from East Sea, monthly loan repayments from East Sea on the
14 Yu Note (\$50,000), and his salary from another employment position he held at Anton Floyd.¹
15 Applicant Yu repaid Lender #2 from his personal account in the amount of \$65,000 a month, with
16 the exception of five to six payments, which were paid directly from East Sea's bank account.
17 The loan was repaid in full on July 5, 2019.

18 **Formation of Majesty Partners**

19 37. In February 2017, East Sea and Knighted Ventures, LLC (Knighted), a third-party
20 provider of proposition player services, co-formed Majesty.

21 38. In August 2017, East Sea entered into a Joint Venture Agreement with Knighted to
22 form Majesty. In accordance with the Joint Venture Agreement, Knighted has sole responsibility
23 for the management, staffing, and operation of Majesty. East Sea's responsibility is to market and
24 promote table games in order to increase customer base and total revenue.

25 39. East Sea and Knighted each have a 50% ownership interest in Majesty and separately
26 contributed \$5 million in startup capital. The source of funds for East Sea's investment and

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28 ¹ Applicant Huang testified he makes approximately \$48,000 a year for his position as Chief
Financial Officer at Anton Floyd, a printing and packaging company.

1 ownership interest in Majesty was funds loaned by Applicants Huang and Yu pursuant to the
2 Huang and Yu Notes.

3 40. East Sea has never had any contracts to provide third party proposition player services
4 with any gambling establishment. Rather, Majesty provides third-party proposition player
5 services to the Bicycle Casino pursuant to a Bureau-approved contract.

6 **Lenders #1 and #2 are Funding Sources of East Sea**

7 41. CCR section 12200(b)(10), which was in effect at the time the Applications were
8 submitted, defines a funding source, in part, as:

9 “Funding source” means any person that provides financing, including but not
10 limited to loans, advances, any other form of credit, chips, or any other
11 representation or thing of value, to an owner-registrant or owner-licensee, other
12 than individual registrants under subsection (d) of Section 12201 or individual
13 licensees. “Funding source” does not include any federally or state chartered
lending institution or any of the following entities that in the aggregate owns at
least one hundred million dollars (\$100,000,000) of securities of issuers that are
not affiliated with the entity...

14 42. While the regulations have been amended since Applicants submitted their
15 Applications, the substance of what is considered a “funding source” remains the same. The
16 current regulation, CCR 12002(at) defines “TPPPS funding source,” in part, as:

17 (at) “TPPPS funding source” means any person, or their successor in interest, that
18 provides financing to any TPPPS owner type licensee, for use by a TPPPS
19 business licensee in which the person is not licensed including but not limited to
20 loans, advances, or any other thing of value including without limitation credit and
chips. TPPPS funding source does not include any federally or state chartered
lending institution or any of the following entities that in the aggregate owns at
least \$100,000,000 in securities, loans, or other investment instruments of issuers
that are not affiliated with the entity...

21 43. At the time that the Huang Note and Yu Notes were signed, Applicants were owner-
22 registrants with pending Applications as owner-licensees.

23 44. Lender #1 provided an unsecured loan to Applicant Huang, an owner-registrant of
24 East Sea, pursuant to the Huang Note. Without the funds from Lender #1, Applicant Huang
25 would not have been able to make the aforementioned investment and loan to East Sea. Applicant
26 Yu testified that he and Applicant Huang did not have the necessary funds to start East Sea
27 without obtaining loans. Additionally, according to a Personal Statement of Net Worth submitted
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1 by Applicant Huang to the Bureau, her net worth for the year ending 12/31/2017 was negative
2 \$1,939,165 and her annual income was approximately \$27,000.

3 45. Additionally, the purpose of the Huang Note was to provide funds for Applicant
4 Huang to invest as startup capital in East Sea. Due to this understanding, Lender #1 wired the
5 funds directly to East Sea's bank account to fund the East Sea Note #1. Based on the foregoing,
6 Lender #1 was a funding source of East Sea between March 31, 2017 and July 16, 2019 when the
7 Huang Note was satisfied in full.

8 46. Additionally, Lender #2 provided an unsecured loan to Applicant Yu, an owner-
9 registrant of East Sea, pursuant to the Yu Note. Without the funds from Lender #2, Applicant Yu
10 would not have been able to make the aforementioned investment and loan to East Sea.
11 According to a Personal Statement of Net Worth submitted by Applicant Yu to the Bureau, his
12 net worth for the year ending 12/31/2017 was \$1,876,182 and his annual income was
13 \$114,760.75. Applicant Yu testified that he did not have sufficient funds to start East Sea without
14 the loan.

15 47. Additionally, the purpose of the Yu Note was to provide funds for Applicant Yu to
16 invest in East Sea. Due to this understanding, Lender #2 issued two checks directly to East Sea to
17 fund the East Sea Note #2. Based on the foregoing, Lender #2 was a funding source of East Sea
18 between January 23, 2017 and July 5, 2019 when the Yu Note was satisfied in full.

19 48. Additionally, Applicants Huang and Yu were also funding sources for East Sea by
20 virtue of the East Sea Notes #1 and #2. However, as specified in the 2017 and current funding
21 source definition, persons who are already registered or licensed do not need to separately apply
22 on the basis of being a funding source.

23 **Assessment of Applicants Suitability for Licensure-Unregistered Funding Sources**

24 *Testimony of Applicants Huang and Yu*

25 49. Applicant Yu testified that Applicants Huang and Yu focus on introducing Chinese
26 speaking patrons and tourists to the Bicycle Casino. Specifically, Applicants Huang and Yu aim
27 to bring patrons to play Baccarat in the Macau Room, which is reserved for the highest bidding
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1 games.

2 50. Applicant Yu testified that he learned that the Bureau was concerned about East Sea's
3 funding sources upon receipt of the Bureau Report, which was issued on September 24, 2020.
4 However, at that point in time, Applicant Yu only understood that there was a "problem with" the
5 funding sources. It was not until a later meeting with DA Zuniga and Yu's attorney that Applicant
6 Yu understood that the Bureau alleged that East Sea's funding sources were required to apply for
7 licensure.

8 51. Applicant Huang testified that she understood after receipt of the Bureau Report that
9 there was a problem with East Sea's funding sources based on the funds being borrowed, but she
10 did not understand until hearing testimony on the first day of the GCA hearing that the Bureau
11 alleged that East Sea's funding sources should have also applied for registration or licensure.

12 52. Applicant Yu testified that Applicants retained a private company, Kroll, to conduct a
13 background investigation on Lenders #1 and 2. The purpose of retaining Kroll was to prove that
14 Lenders #1 and Lenders #2 are good people, have not committed a crime, and that the funds
15 loaned to Applicants were legally obtained. Kroll prepared a final report dated April 30, 2021
16 (Kroll Report). The cost for the Kroll Report was slightly over \$20,000.

17 *Testimony of DA Zuniga*

18 53. DA Zuniga testified that he worked for the Division of Gambling Control, the
19 Bureau's predecessor, as a special agent for approximately three years between 2001 and 2004.
20 After DA Zuniga left his employment at the Bureau, he began working as a consultant in the
21 gambling industry.

22 54. DA Zuniga testified at the hearing that Applicants told him that they were obtaining
23 personal loans to fund East Sea. DA Zuniga told the Applicants they would need promissory
24 notes for the loans to provide to the Bureau.

25 55. DA Zuniga also testified that he told Applicants Huang and Yu that there was a
26 chance the Bureau would want Lenders #1 and #2 to apply for registration or licensure to "know
27 who these guys are and where they got their money from." DA Zuniga testified that the
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1 application for registration was an easy two page form and that Applicants Yu and Huang advised
2 him that Lenders #1 and #2 would submit the applications if requested.

3 56. DA Zuniga testified that based on his understanding of the relevant law, he did not
4 believe that Lenders #1 and #2 needed to apply as funding sources as long as the funds were not
5 going directly to or from East Sea.

6 57. DA Zuniga also testified that he did not know until after receipt of the Bureau Report
7 that Lenders #1 and #2 had sent the loan funds directly to East Sea, or that some loan repayments
8 due pursuant to the Huang and Yu Notes were made directly to Lenders #1 and #2 from East
9 Sea.²

10 *Testimony of Brian Gilleland and Yolanda Morrow*

11 58. Brian Gilleland, Manager II in the Bureau's Licensing Section, testified that he
12 oversaw the background investigation and review of the applications and financial documents for
13 Applicants and the related Bureau Report.

14 59. Yolanda Morrow, Assistant Director and the Acting Director of the Bureau, testified
15 that she has worked for the Bureau since 2008 and has been the Assistant Director since 2015.
16 Ms. Morrow supervises approximately 100 employees in the Bureau's Licensing Section. Ms.
17 Morrow is familiar with the Applications and she reviewed and signed the Bureau's Report.

18 60. Both Ms. Morrow and Mr. Gilleland testified that the Bureau is concerned with how
19 an entity generates its startup capital. The Act and regulations require that funding sources be
20 registered or licensed as owners. It's important for the Bureau to understand how an entity
21 generates startup funds so that the Bureau can accurately make a recommendation to the
22 Commission. Ms. Morrow testified that the Bureau is especially concerned with ensuring that
23 startup funds are not from an illicit source due to the potential for criminal elements to be present
24 in the cardroom industry.

25 61. Mr. Gilleland and Ms. Morrow testified that at the time the loans pursuant to the

26 _____
27 ² On multiple occasions at the hearing, DA Zuniga claimed under oath that he did not know that
28 Lenders #1 and #2 sent the loan funds directly to East Sea until issuance of the Bureau's Report in
September 2020. However, as concluded in paragraphs 21 and 34, the Bureau directly notified DA Zuniga
on March 13, 2018 that the funds were sent directly to East Sea rather than to Applicants Yu and Huang.

1 Huang Note and East Sea Note #1 were made, and at no time thereafter, did Lender #1 apply for a
2 registration or license as a funding source owner of East Sea. Because Lender #1 did not file an
3 application, the Bureau could not conduct a background investigation on Lender #1 and could not
4 provide information in the Bureau Report regarding Lender #1's criminal history or the source of
5 funds for the loan made by Lender #1.

6 62. Similarly, Ms. Morrow and Mr. Gilleland testified that at the time the loans pursuant
7 to the Yu Note and East Sea Note #2 were made, and at no time thereafter, did Lender #2 apply
8 for a registration or licensure as a funding source owner of East Sea. Because Lender #2 did not
9 file an application, the Bureau could not conduct a background investigation on Lender #2 and
10 could not provide information in the Bureau Report regarding Lender #2's criminal history or the
11 source of funds for the loan made by Lender #2.

12 63. Ms. Morrow and Mr. Gilleland testified that there is no suspension, fine, or condition
13 that could alleviate the Bureau's concerns about the origin of the startup funds loaned to
14 Applicants because the Bureau did not have authority to conduct a background investigation on
15 Lenders #1 and #2 because the funding sources did not submit applications, and the loans have
16 already been repaid and the money is back in the hands of the original lenders.

17 64. Ms. Morrow testified that had Lenders #1 and #2 applied for a registration, the Bureau
18 would have done a criminal history review prior to issuing the registrations. Thereafter, upon
19 application for licensure, a full background investigation on Lenders #1 and #2 as funding sources
20 would have been completed, including a review of financial statements, investment accounts, and
21 tax returns. If the loans were repaid prior to the funding sources being licensed, the Commission
22 could abandon the applications for Lenders #1 and #2, but could have had the benefit of a full
23 background investigation on the lenders as funding sources to evaluate when considering
24 Applicants suitability for licensure. However, since neither lender applied for registration or
25 licensure, the Bureau did not have authority to conduct a background investigation on Lenders #1
26 and #2.

27 65. Finally, Ms. Morrow testified that she reviewed the Kroll Report and believes it
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1 establishes that Lenders #1 and #2 are wealthy. However, the Kroll Report does not indicate
2 where the funds loaned to East Sea originated from or include the type of information that would
3 normally be sought during the Bureau's background investigation and included in the Bureau's
4 report. The Kroll Report did not include financial statements, copies of checks, tax returns, or
5 other information that the Bureau would normally look at to verify the source of funds.

6 *East Sea Has Unregistered Funding Sources*

7 66. Pursuant to former CCR 12202(a), which was in effect at the time the Applications
8 were submitted, when a primary owner is a corporation, such as East Sea, then each owner, shall
9 individually apply for and obtain registration as an owner. "Owner" was previously defined by
10 CCR 12200(b)(16) to include "any funding source."

11 67. Under the Commission's current regulation, CCR 12002(as) and (av), a TPPPS
12 endorsee license includes a license issued to a TPPPS funding source. The only way for a funding
13 source to be an endorsee is to apply for licensure.

14 68. Additionally, the Applications submitted by Applicants contained instructions that
15 indicated that funding sources were considered owners. Section 1 of the Application requires the
16 applicant to check one box identifying whether the applicant is the primary owner or owner. The
17 instructions under the second box for owner states: "An owner is any other type not covered
18 above, such as...any person who received any percentage share of the revenues earned, or any
19 funding source."

20 69. Additionally, the Level III Supplemental information-Business form submitted by
21 Applicants, contains at the top of the first page a section requiring identification of the type of
22 applicant, with one option being a "funding source for TPPPS." Thus, the regulations and
23 instructions on the Applications required all owners, including funding sources, to apply for
24 registration or licensure. Although the Commission notes that the Huang and Yu Notes have been
25 repaid, it does not excuse compliance with Commission regulations and the Act at the time that
26 the Applications were filed, or thereafter. The purpose of the funding source regulations are to
27 require persons who provide startup funds, through loans or otherwise, to apply for licensure,
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1 which allows the Bureau to conduct a background investigation and make a recommendation to
2 the Commission on the suitability of the funding sources. When funding sources do not apply for
3 registration or licensure as owners, the Commission does not have the information necessary to
4 fully assess the suitability of the funding sources and other owners.

5 70. The fact that Lenders #1 and #2 were repaid prior to the Commission having the
6 opportunity to assess Applicants' suitability for licensure, does not cure the failure of the funding
7 sources to apply in the first instance. Such a "catch-me-if-you-can" approach would circumvent
8 the purpose of the Act in protecting the public and the integrity of the industry.

9 71. The Commission shares the Bureau's concern that in this case a new third-party
10 provider of proposition player services was formed with the majority of its startup capital coming
11 from unregistered funding sources. This concern is compounded by the fact that funds obtained
12 through the same unregistered funding sources was then invested to start Majesty, another third-
13 party provider of proposition player services company, which provides services in one of the
14 largest cardrooms in California.

15 72. The interrelated investments and loans, were structured so that funds originated from
16 Lenders #1 and #2 and ultimately were paid back to the same lenders after being invested into and
17 generating income from East Sea and Majesty. Not having a background investigation on these
18 lenders prevents the Commission from being able to evaluate whether Applicants are suitable for
19 licensure. For example, if the funds that originated from Lenders #1 and #2 were from an illicit
20 source, then the formation of East Sea and Majesty could be considered a means of money
21 laundering. While that example may sound extreme, the fact is that the Commission has no
22 information to alleviate these concerns about the source East Sea's startup funds.

23 73. DA Zuniga advised Applicants Huang and Yu that they might need to ask their
24 funding sources to submit applications for registration or licensure. However, they chose to wait
25 and see if the Bureau would ask for them, which is another example of the "catch-me-if-you-can"
26 approach Applicants took to the licensing process. Additionally, even after issuance of the Bureau
27 Report, Applicants' funding sources did not submit applications so that the Bureau could conduct
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1 a background investigation and prepare a report with a recommendation for the Commission.
2 Applicants instead went to great expense to retain a private company to prepare the Kroll Report,
3 which is not a valid substitute for a Bureau background investigation and report under the Act or
4 regulations.

5 74. DA Zuniga testified that he told the Applicants that there was a chance the Bureau
6 would consider Lenders #1 and #2 to be funding sources and would ask them to apply for
7 registration or licensure. However, DA Zuniga did not believe Lenders #1 and #2 were funding
8 sources as long as the loans were made directly to Applicants Huang and Yu and not to East Sea.
9 However, on March 13, 2018, the Bureau asked why Lenders #1 and #2 sent the funds loaned to
10 Applicants Huang and Yu directly to East Sea via two emails to DA Zuniga, which he in turn
11 forwarded to Applicant Yu. Still, DA Zuniga did not advise the Applicants to have their funding
12 sources apply for licensure.

13 75. Additionally, Applicants Yu and Huang testified that after receipt of the Bureau
14 Report, they only vaguely understood that there was a problem with their funding sources, and it
15 was not until much later that they understood that the Bureau contended that Lenders #1 and #2
16 should have applied for licensure. The fact that Applicants understood that there was a problem
17 with their funding sources that was serious enough to warrant a denial recommendation should
18 have resulted in some corrective action, such as seeking additional professional assistance, and
19 especially ensuring that they understood the allegations in the Bureau Report. These actions, as
20 well as others previously mentioned, indicate to the Commission that Applicants do not fully
21 understand nor have taken individual accountability to understand the regulatory scheme, rules,
22 and regulations applicable to the controlled gambling industry, which further calls into question
23 their suitability for licensure as owners.

24 76. Because East Sea, as a corporation, is not eligible for licensure unless all of its owners
25 also individually apply and are approved for licensure, the Applications must be denied.
26 Additionally, the Bureau was not able to complete a background investigation on East Sea's
27 funding source owners. Without a complete background investigation that evaluates the
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1 eligibility and qualifications for licensure of Lenders #1 and Lenders #2, the Commission cannot
2 be satisfied that Applicants have established eligibility and qualification in accordance with the
3 Act.

4 77. Because the Applications must be denied on the basis that East Sea has unregistered
5 funding sources, the Commission need not address the question of whether Applicants Huang and
6 Yu are otherwise suitable for licensure.

7 78. All documentary and testimonial evidence submitted by the parties that is not
8 specifically addressed in this Decision and Order was considered but not used by the Commission
9 in making its determination on the Applications.

10 **LEGAL CONCLUSIONS**

11 79. Division 1.5 of the Business and Professions Code, the provisions of which govern the
12 denial of licenses on various grounds, does not apply to licensure decisions made by the
13 Commission under the Gambling Control Act. Business and Professions Code section 476(a).

14 80. Public trust and confidence can only be maintained by strict and comprehensive
15 regulation of all persons, locations, practices, associations, and activities related to the operation
16 of lawful gambling establishments and the manufacture and distribution of permissible gambling
17 equipment. Business and Professions Code section 19801(h).

18 81. The Commission has the responsibility of assuring that licenses, approvals, and
19 permits are not issued to, or held by, unqualified or disqualified persons, or by persons whose
20 operations are conducted in a manner that is inimical to the public health, safety, or welfare.
21 Business and Professions Code section 19823(a)(1).

22 82. An “unqualified person” means a person who is found to be unqualified pursuant to
23 the criteria set forth in Section 19857, and “disqualified person” means a person who is found to
24 be disqualified pursuant to the criteria set forth in Section 19859. Business and Professions Code
25 section 19823(b).

26 83. The Commission has the power to deny any application for a license, permit, or
27 approval for any cause deemed reasonable by the Commission. Business and Professions Code
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1 section 19824(b).

2 84. The Commission has the power to take actions deemed to be reasonable to ensure that
3 no ineligible, unqualified, disqualified, or unsuitable persons are associated with controlled
4 gambling activities. Business and Professions Code section 19824(d).

5 85. The burden of proving his or her qualifications to receive any license from the
6 Commission is on the applicant. Business and Professions Code section 19856(a); CCR section
7 12060(i).

8 86. No gambling license shall be issued unless, based on all of the information and
9 documents submitted, the commission is satisfied that the applicant is a person that is in all other
10 respects qualified to be licensed as provided in this chapter. Business and Professions Code
11 section 19857(c).

12 87. The Commission shall deny a license to any applicant who is disqualified for failure of
13 the applicant to clearly establish eligibility and qualification in accordance with this chapter.
14 Business and Professions Code section 19859(a).

15 88. An application for a license will be denied if the Commission finds that the applicant
16 has not satisfied the requirements of Business and Professions Code sections 19857 or 19859.
17 CCR sections 12040(a)(1) and (2).

18 89. “Funding source” as defined in part, at the time the Applications were submitted,
19 “means any person that provides financing, including but not limited to loans, advances, any other
20 form of credit...to an owner-registrant or owner-licensee, other than individual registrants...”
21 CCR sections 12200(10).

22 90. At the time the Applications were submitted, there were four license categories
23 entitling the holder to provide third-party proposition players services, including an owner.
24 “Owner” was defined to include “any funding source.” CCR sections 12200(12) and (16).

25 91. At the time the Applications were submitted, if a primary owner was a corporation,
26 each owner and individual having a relationship to that entity specified in Business and
27 Professions Code section 19852 (a) through (h), inclusive, shall individually apply for and obtain
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1 registration as an owner listed on the business entity’s registration certificate. CCR section
2 12202(d).

3 92. An owner of a gambling enterprise that is not a natural person shall not be eligible for
4 a state gambling license unless each of the following persons individually applies for and obtains
5 a state gambling license: (a) If the owner is a corporation, then each officer, director, and
6 shareholder, other than a holding or intermediary company, of the owner. Business and
7 Professions Code section 19852(a).

8 93. Under current Commission regulations, “TPPPS funding source” means, in part, any
9 person, or their successor in interest, that provides financing to any TPPPS owner type licensee,
10 for use by a TPPPS business licensee in which the person is not licensed including but not limited
11 to loans. CCR 12002(at).

12 94. Under current regulations, “TPPPS owner type license” means a TPPPS business
13 license and a TPPPS endorsee license.” CCR 12002(ay). “TPPPS business license” means a
14 license issued to a sole proprietor, corporation, partnership, limited liability company, or other
15 business entity for the purpose of providing third-party proposition player services in a gambling
16 establishment. CCR section 12002(ap). “TPPPS endorsee license” includes a license issued to any
17 of the following: Any person specified in Business and Professions Code section 19852 (a)
18 through (g) in relation to a TPPPS business licensee; and any TPPPS funding source. CCR
19 section 12002(as)(1) and (4).

20 95. A TPPPS registration includes all conditions of a temporary license provided in
21 CCR section 12122(a), (b), (d) and (e). Upon issuance or denial of a license by the Commission,
22 the temporary license will become void and cannot be used thereafter pursuant to CCR sections
23 12130, subsection (d) and 12122, subsection (d).

24 96. Because East Sea has two unregistered funding source owners, the Commission is not
25 satisfied that the Applicants are in all respects qualified to be licensed under Business and
26 Professions Code section 19857(c). Therefore, the Applications must be denied pursuant to CCR
27 section 12040(a)(1).
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1 97. Also because East Sea has two unregistered funding source owners, Applicants have
2 not clearly established eligibility and qualification in accordance with the Act pursuant to
3 Business and Professions Code section 19859(a). Based on the foregoing, the Applications must
4 be denied pursuant to CCR section 12040(a)(2).

5 98. In addition, as the Applications are subject to denial, Applicants' registrations are void
6 pursuant to Title 4, CCR section 12122 (d) and cannot be used hereafter.

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NOTICE OF APPLICANT’S APPEAL RIGHTS

Applicants have the following appeal rights available under state law:

CCR section 12064, subsections (a) and (b) provide, in part:

(a) After the Commission issues a decision following a GCA hearing conducted pursuant to Section 12060, an applicant denied a license, permit, registration, or finding of suitability, or whose license, permit, registration, or finding of suitability has had conditions, restrictions, or limitations imposed upon it, may request reconsideration by the Commission. A request for reconsideration must be:

- (1) Made in writing to the Commission, copied to the Complainant. The Bureau may provide a written response to the Commission within 10 calendar days of receipt of the request; and
- (2) Received by the Commission and Complainant within 30 calendar days of service of the decision, or before the effective date specified in the decision, whichever is earlier.

(b) A request for reconsideration must state the reasons for the request, which must be based upon either:

- (1) Newly discovered evidence or legal authorities that could not reasonably have been presented before the Commission’s issuance of the decision or at the hearing on the matter; or,
- (2) Other good cause which the Commission may decide, in its sole discretion, merits reconsideration.

Business and Professions Code section 19870, subdivision (e) provides:

A decision of the commission denying a license or approval, or imposing any condition or restriction on the grant of a license or approval may be reviewed by petition pursuant to Section 1085 of the Code of Civil Procedure. Section 1094.5 of the Code of Civil Procedure shall not apply to any judicial proceeding described in the foregoing sentence, and the court may grant the petition only if the court finds that the action of the commission was arbitrary and capricious, or that the action exceeded the commission's jurisdiction.

CCR section 12066, subsection (c) provides:

A decision of the Commission denying an application or imposing conditions on license shall be subject to judicial review as provided in Business and Professions Code section 19870, subdivision (e). Neither the right to petition for judicial review nor the time for filing the petition shall be affected by failure to seek reconsideration.

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ORDER

1. East Sea Investment Group, Inc., Jiahua Yu, and Wanchun Huang’s, Applications for Third-Party Proposition Player Services License are DENIED.

2. East Sea Investment Group, Inc., Jiahua Yu, and Wanchun Huang’s Registrations, Numbers TPPP-000134, TPOW-000591, and TPOW-000592, are void and cannot be used hereafter.

3. No costs are awarded.

4. Each side to pay its own attorneys’ fees.

This Order is effective on June 15, 2022.

Dated: 5/16/2022 Signature: 
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Paula LaBrie, Chair

Dated: 5/16/2022 Signature: 
3D1DB086F9274AA...
Cathleen Galgiani, Commissioner

Dated: 5/16/2022 Signature: 
2B4CE9520F8845C...
Eric Heins, Commissioner

Dated: 5/16/2022 Signature: 
7722F4571T20449...
William Liu, Commissioner

Dated: 5/16/2022 Signature: 
14B4AD3B90F8462...
Edward Yee, Commissioner