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10 **BEFORE THE**
11 **CALIFORNIA GAMBLING CONTROL COMMISSION**
12 **STATE OF CALIFORNIA**

13 **In the Matter of the Application for Denial
of State Gambling Licenses for:**

14 **LEWIS & LEWIS, INC.,
15 dba CAMEO CLUB
16 522 W. Benjamin Holt Drive
Stockton, California 95207**

17 **LICENSE NUMBERS GEOW-000853, GEGE-
18 000340;**

19 **DAVID AND MARGARET LEWIS 1999 FAMILY
20 TRUST, LICENSE NUMBER GEOW-003234;**

21 **MARGARET LEWIS, LICENSE NUMBER
22 GEOW-003216;**

23 **NATALIE J. LEWIS SURVIVORS TRUST,
24 LICENSE NUMBER GEOW-003284;**

25 **DAVID RYAN LEWIS, LICENSE NUMBER
26 GEOW-003341; AND**

27 **BROOKE LEWIS-SIEMERS, LICENSE NUMBER
28 GEOW-003342,**

Respondents.

BGC Case No. HQ2018-00027SL

CGCC Case No.: CGCC-2018-0426-7B

STATEMENT OF REASONS

Date: December 17, 2018
Time: 10:00 a.m.
Address: 2399 Gateway Oaks, Suite 100
Sacramento, CA 95833

1 Complainant alleges as follows:

2 **PARTIES**

3 1. Stephanie Shimazu (Complainant) brings this Statement of Reasons solely in her
4 official capacity as the Director of the California Department of Justice, Bureau of Gambling
5 Control (Bureau).

6 2. On February 1, 2016, the California Gambling Control Commission (Commission)
7 issued an Owner's Gambling License, license number GEOW-000853, to Lewis & Lewis, Inc.
8 (Corporation). The Corporation owns, operates, and does business as the Cameo Club, gambling
9 establishment license number GEGE-000340. The Cameo Club is an eight-table card room in
10 Stockton, California. Also on February 1, 2016, the Commission issued Owner's Gambling
11 Licenses to following persons and entities, and each is endorsed on the Cameo Club's gambling
12 establishment license:

- 13 a. The David and Margaret Lewis 1999 Family Trust, license number GEOW-
14 003234;
- 15 b. Margaret Lewis, license number GEOW-003216;
- 16 c. The Natalie J. Lewis Survivors Trust, license number GEOW-003284;
- 17 d. David Ryan Lewis, license number GEOW-003341; and
- 18 e. Brooke Lewis-Siemers, license number GEOW-003342.¹

19 3. In October of 2017, the Bureau received renewal applications for State Gambling
20 License from Respondents.

21 4. On April 26, 2018, the California Gambling Control Commission (Commission)
22 considered Respondents' renewal applications (collectively, Applications) and referred the matter
23 to an evidentiary hearing pursuant to California Code of Regulations, title 4, section 12054,
24 subdivision (a)(2).²

25 _____
26 ¹ The licensees identified in paragraph 2, including the Corporation, are collectively
referred to as "Respondents" in this Statement of Reasons.

27 ² The statutes and regulations applicable to this Statement of Reasons are quoted in
28 pertinent part in Appendix A.

1 5. Respondents submitted a Notice of Defense, dated May 3, 2018.

2 **JURISDICTION**

3 6. The Commission has jurisdiction over the operation and concentration of gambling
4 establishments and all persons and things having to do with the operation of gambling
5 establishments. (Bus. & Prof. Code, § 19811, subd. (b).) The Commission's responsibilities
6 include assuring that licenses are not issued to unqualified or disqualified persons and that no
7 unqualified or disqualified person is materially involved with a licensed gambling operation.
8 (Bus. & Prof. Code, § 19823, subd. (a).) The Commission has all powers necessary and proper to
9 carry out the Gambling Control Act's policies and purposes, including the powers to deny any
10 application for a license and to take actions to ensure that no ineligible, unqualified, disqualified,
11 or unsuitable persons are associated with controlled gambling activities. (Bus. & Prof. Code, §
12 19824, subs. (b) & (d).)

13 **BURDEN OF PROOF**

14 7. Respondents have the burden of proving they are qualified to receive a state gambling
15 license. (Bus. & Prof. Code, § 19856, subd. (a).)

16 **FIRST CAUSE FOR DENIAL OF APPLICATION**

17 **(Failure To Maintain Adequate Financing)**

18 8. Respondents' renewal applications are subject to denial³ in that Respondents are
19 unqualified and/or disqualified for licensure renewal. Cameo Club has repeatedly lacked
20 sufficient funds in a properly designated and segregated account to cover its chips-in-use and
21 player-funded jackpot liability as follows:

22 a. On multiple occasions in the year 2017, the Bureau conducted onsite
23 evaluations of the Cameo Club's financing. The Bureau's evaluations disclosed that the
24 Cameo Club lacked, and failed to maintain, sufficient records to document its current
25 chips-in-use liability. Nonetheless, on the dates of the Bureau's onsite evaluations, the

26 ³ Respondents' renewal applications are subject to mandatory denial if Respondents are
27 found to be unqualified or disqualified for licensure under any of the criteria found in Business
28 and Professions Code sections 19857, subdivisions (a) or (b), or 19859. (See Cal. Code. Regs.,
tit. 4, § 12346, subd. (a)(1); see also Bus. & Prof. Code, § 19823.)

1 Bureau was able to determine that the Cameo Club's chips-in-use liability was
2 underfunded as follows: (1) September 19, 2017 - \$134,799 underfunded; (2) October 13,
3 2017 - \$104,654 underfunded; (3) December 5, 2017 - \$151,990 underfunded; and (4)
4 December 18, 2017 - \$66,736 underfunded.

5 b. On the dates of the onsite evaluations, the Bureau also determined the balance
6 in the Cameo Club's general account and found that the Cameo Club's chips-in-use and
7 player-funded jackpot liabilities were underfunded as follows: (1) September 19, 2017 -
8 \$111,804; (2) October 13, 2017 - \$101,930; (3) December 5, 2017 - \$127,461; and (4)
9 December 18, 2017 - \$74,708.

10 c. The Cameo Club's chips-in-use liability constitutes funds held by the Cameo
11 Club in trust, or constructive trust, for the benefit of the purchasers of those chips,
12 including the Cameo Club's patrons and third-party provider of proposition player
13 services. Those funds are to be held exclusively for the purpose of redeeming those chips
14 on demand. During 2017, on the dates the Bureau conducted onsite evaluations, the
15 Cameo Club was unable to present acceptable documentation of any alternate security for
16 its chips-in-use liability that had been approved by the Bureau.

17 d. Respondents repeatedly failed to report to, or otherwise advise or disclose to,
18 the Bureau that Cameo Club lacked sufficient funds in a properly designated and
19 segregated account to cover its chips-in-use liability.

20 (Bus. & Prof. Code, §§ 19801, subds. (h) & (k), 19823, subds. (a)(1) & (2), 19857, subd. (b),
21 19859, subd. (a), 19866, 19920, & 19922; Cal. Code Regs., tit. 11, §§ 2052, subd. (c), & 2053,
22 subds. (a) & (b).)

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SECOND CAUSE FOR DENIAL OF APPLICATION

(Employed Unlicensed Key Employee)

9. Respondents' renewal applications are subject to denial⁴ in that from October 31, 2016, to January 17, 2018, Respondents allowed Robert McCaullay, who was not licensed as a key employee, to work in a key employee capacity at the Cameo Club.
(Bus. & Prof. Code, §§ 19801, subds. (h) & (k), 19823, subds. (a)(1) & (2), 19850, 19857, subd. (b), 19859, subd. (a), 19866, 19920, & 19922.)

PRAYER

WHEREFORE, Complainant requests that a hearing be held on the matters alleged herein, and that following the hearing, the Commission issue a decision:

- 1. Denying each Respondent's renewal application; and
- 2. Taking such other and further action as the Commission may deem appropriate.

Dated: September 25, 2018


STEPHANIE SHIMAZU, Director
Bureau of Gambling Control
California Department of Justice
Complainant

⁴ Respondents' renewal applications are subject to mandatory denial if Respondents are found to be unqualified or disqualified for licensure under any of the criteria found in Business and Professions Code sections 19857, subdivisions (a) or (b), or 19859. (See Cal. Code. Regs., tit. 4, § 12346, subd. (a)(1); see also Bus. & Prof. Code, § 19823.)

1 upon any person licensed or approved. The commission may condition,
2 restrict, discipline, or take action against the license of an individual owner
3 endorsed on the license certificate of the gambling enterprise whether or not
the commission takes action against the license of the gambling enterprise.

4 [¶] . . . [¶]

5 (d) Take actions deemed to be reasonable to ensure that no ineligible,
6 unqualified, disqualified, or unsuitable persons are associated with
controlled gambling activities.

7 5. Business and Professions Code section 19826 provides, in part:

8 The department⁵ . . . shall have all of the following responsibilities:

9 (a) To receive and process applications for any license, permit, or other
10 approval, and to collect all related fees. The department shall investigate the
11 qualifications of applicants before any license, permit, or other approval is
12 issued, and investigate any request to the commission for any approval that
13 may be required pursuant to this chapter. The department may recommend
the denial or limitation, conditioning, or restriction on any license, permit, or
other approval.

14 **Specific Statutory and Regulatory Provisions**

15 6. Business and Professions Code, section 19801 provides, in part:

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

19 [¶] . . . [¶]

20 (k) In order to effectuate state policy as declared herein, it is necessary
21 that gambling establishments, activities, and equipment be licensed, that
22 persons participating in those activities be licensed or registered, that certain
23 transactions, events, and processes involving gambling establishments and
24 owners of gambling establishments be subject to prior approval or
25 permission, that unsuitable persons not be permitted to associate with
gambling activities or gambling establishments Any license or permit
issued, or other approval granted pursuant to this chapter, is declared to be a
revocable privilege, and no holder acquires any vested right therein or
thereunder.

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27
28 (h.) ⁵ “Department” refers to the Department of Justice. (Bus. & Prof. Code, § 19805, subd.

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7. Business and Professions Code section 19850 provides, in part:

Every person . . . who receives, directly or indirectly, any compensation or reward, or any percentage or share of the money or property played, for keeping, running, or carrying on any controlled game in this state, shall apply for and obtain from the commission, and shall thereafter maintain, a valid state gambling license, key employee license, or work permit In any criminal prosecution for violation of this section, the punishment shall be as provided in Section 337j of the Penal Code.

8. Business and Profession Code section 19851 provides:

(a) The owner of a gambling enterprise shall apply for and obtain a state gambling license. The owner of a gambling enterprise shall be known as the owner-licensee.

9. Business and Professions Code section 19852 provides, in part:

Except as provided in Section 19852.2, an owner of a gambling enterprise that is not a natural person shall not be eligible for a state gambling license unless each of the following persons individually applies for and obtains a state gambling license:

(a) If the owner is a corporation, then each officer, director, and shareholder, other than a holding or intermediary company, of the owner. The foregoing does not apply to an owner that is either a publicly traded racing association or a qualified racing association.

10. Business and Professions Code section 19856 provides:

(a) Any person who the commission determines is qualified to receive a state license, having due consideration for the proper protection of the health, safety, and general welfare of the residents of the State of California and the declared policy of this state, may be issued a license. The burden of proving his or her qualifications to receive any license is on the applicant.

(b) An application to receive a license constitutes a request for a determination of the applicant's general character, integrity, and ability to participate in, engage in, or be associated with, controlled gambling.

(c) In reviewing an application for any license, the commission shall consider whether issuance of the license is inimical to public health, safety, and welfare, and whether issuance of the license will undermine public trust that the gambling operations with respect to which the license would be issued are free from criminal and dishonest elements and would be conducted honestly.

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11. Business and Professions Code section 19857 provides:

No gambling license shall be issued unless, based on all the information and documents submitted, the commission is satisfied that the applicant is all of the following:

- (a) A person of good character, honesty and integrity.
- (b) A person whose prior activities, criminal record, if any, reputation, habits, and associations do not pose a threat to the public interest of this state, or to the effective regulation and control of controlled gambling, or create or enhance the dangers of unsuitable, unfair, or illegal practices, methods, and activities in the conduct of controlled gambling or in the carrying on of the business and financial arrangements incidental thereto.
- (c) A person that is in all other respects qualified to be licensed as provided in this chapter.

12. Business and Professions Code section 19859 provides, in part:

The commission shall deny a license to any applicant who is disqualified for any of the following reasons:

- (a) Failure of the applicant to clearly establish eligibility and qualification in accordance with this chapter.

13. Business and Professions Code section 19866 provides:

An applicant for licensing or for any approval or consent required by this chapter, shall make full and true disclosure of all information to the department and the commission as necessary to carry out the policies of this state relating to licensing, registration, and control of gambling.

14. Business and Professions Code section 19920 provides:

It is the policy of the State of California to require that all establishments wherein controlled gambling is conducted in this state be operated in a manner suitable to protect the public health, safety, and general welfare of the residents of the state. The responsibility for the employment and maintenance of suitable methods of operation rests with the owner licensee, and willful or persistent use or toleration of methods of operation deemed unsuitable by the commission or by local government shall constitute grounds for license revocation or other disciplinary action.

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15. Business and Professions Code section 19922 provides:

No owner licensee shall operate a gambling enterprise in violation of any provision of this chapter or any regulation adopted pursuant to this chapter.

16. California Code of Regulations, title 4, section 12054, subdivision (a), provides:

(a) At a non-evidentiary hearing meeting, the Commission may take, but is not limited to taking, one of the following actions:

(1) Issue a license, temporary license, interim license, registration, permit, finding of suitability, renewal or other approval.

(2) Elect to hold an evidentiary hearing in accordance with Section 12056 and, when for a renewal application, issue an interim renewal license pursuant to Section 12035. The Commission shall identify those issues for which it requires additional information or consideration related to the applicant's suitability.

(3) Table or continue an item for consideration at a subsequent meeting, for any purpose, including obtaining new or additional information from the applicant, Bureau or Commission staff, provided however in the case of renewals, the Commission must act on the application before the license expires.

(4) Extend a license for up to 180 calendar days as necessary, as provided in Business and Professions Code section 19876, subdivision (c).

(5) Approve or deny a request for withdrawal pursuant to Section 12015.

(6) Make a finding of abandonment pursuant to subsection (c) of Section 12017.

(7) If the Bureau has filed an accusatory pleading with the Commission pursuant to Business and Professions Code section 19930 prior to Commission action on a renewal application, the Commission shall issue an interim renewal license pursuant to Section 12035.

1 17. California Code of Regulations, title 4, section 12346, provides, in part:

2 (a) An application for a gambling license shall be denied by the
3 Commission if any of the following apply:

4 (1) The Commission finds that the applicant is ineligible,
5 unqualified, disqualified, or unsuitable pursuant to the criteria set
6 forth in the Act^{6]} or other applicable law or that granting the
7 license would be inimical to public health, safety, welfare, or
8 would undermine the public trust that gambling operations are
9 free from criminal and dishonest elements.

10 (b) An application for a gambling license may be denied if:

11 (3) The Commission finds that the applicant's past
12 behavior calls into question the applicant's qualification
13 requirements and considerations outlined in Business and
14 Professions Code section 19856.

15 18. California Code of Regulations, title 11, section 2052, subdivision (c), provides:

16 Within five days of any owner licensee or key employee obtaining
17 knowledge or notice of any possible violation of the Act or these
18 regulations, a written report shall be submitted to the Bureau, which
19 details the nature of the violation, the identities of those persons involved
20 in the violation, and describes what actions have been taken to address
21 the violation.

22 19. California Code of Regulations, title 11, section 2053, provides, in part:

23 (a) The Bureau may require a gambling establishment to present
24 satisfactory evidence that there is adequate financing available to protect
25 the public's health, safety and welfare.

26 (b) A gambling establishment shall maintain a separate,
27 specifically designated, insured account with a licensed financial
28 institution in an amount not less than the total value of the chips in use by
the gambling establishment. The funds in that account may only be used
to redeem the chips of that gambling establishment. That account may
not be used as collateral, or encumbered or hypothecated in any fashion.
Alternatively, the Bureau may allow the gambling establishment to
provide some other form of security acceptable to the Bureau, in lieu of
maintaining the required account.

29 ⁶ "Act" refers to the Gambling Control Act, Business and Professions Code, section
30 19800, et seq.).