



San José Police Department
DIVISION OF GAMING CONTROL

July 11, 2016

Via Email & U.S. Mail

Messrs. Masis Kevorkian, Ryan Stone and Kermit Schayltz
C/o Masis Kevorkian
7727 Herschel Avenue
La Jolla, Ca 92037

RE: NOTICE OF MEETING REGARDING INTENTION TO DENY APPLICATION FOR STOCKOWNER LICENSE.

Messrs. Masis Kevorkian, Ryan Stone and Kermit Schayltz:

Please be advised that your respective applications ("applications") to purchase a combined forty-five (45) percent of Garden City, Inc. ("GCI"), dba Casino M8trix ("M8trix") as stockowners has been terminated. The Administrator has obtained sufficient grounds to deny your application pursuant to the California Gambling Control Act, Business and Professions Code 19801; the California Gambling Control Act, Business and Professions Code 19853; San José Municipal Code, Title 16, §16.32.030 "It shall be the affirmative responsibility of each applicant to establish by clear and convincing evidence his or her individual qualifications for a license under this chapter"; §16.32.040 "Each applicant seeking a license under this title and each licensee shall fully cooperate with the administrator and shall provide all information required by the administrator"; §16.32.060 (A) the administrator is satisfied that the applicant is "A person of good character, honesty, and integrity"; §16.32.070 (A) "Failure of the applicant to establish eligibility and qualifications by clear and convincing evidence"; (B) "Failure to provide information, documentation, and assurances required for qualification or failure to reveal any material fact relating to qualification, or to otherwise fail or refuse to fully cooperate with the administrator's licensing investigation"; and (C) "The supplying of information which is untrue or misleading".

Pursuant to San José Municipal Code ("SJMC"), Title 16, § 16.32.120 D, which states "Prior to filing a recommendation that the chief of police deny an application or approve with limitations and conditions, the administrator shall meet with the applicant, or the applicant's authorized representative, and inform him or her generally of the basis for any proposed recommendation that the application be denied, restricted, or conditioned". Therefore, I request your attendance at 10:00 am on Tuesday, July 19, 2016, at the Division of Gaming Control, 210 North Fourth Street, Suite 201, San José, California, to discuss the Division's investigation, findings, and basis for the proposed action.



The intended action is to deny the license application of Masis Kevorkian, Ryan Stone and Kermit Schayltz as stockowners of Garden City, Inc., dba Casino M8trix.

Finding 1:

Masis Kevorkian, Ryan Stone and Kermit Schayltz ("Stone Group") directly or indirectly involved or otherwise participated in the gaming operation of the Seven Mile Casino in Chula Vista, California but without a State Gaming license.

On September 23, 2015, an accusation was filed by the State of California, Bureau of Gambling Control ("BGC") against the Seven Mile Casino, Harvey Souza, Elizabeth Souza and the Harvey and Bette Living Trust for receiving substantial sums of monies from certain unlicensed co-venturers to build a new cardroom, and in return, the co-venturers would be provided with the right to obtain an ownership interest in Seven Mile. Furthermore, the BGC accused three unlicensed co-venturers to make, or substantially participate in, decisions regarding the Seven Mile's operations and policies; and concealing this participation from the BGC and the California Gambling Control Commission. The Division later learned that the unlicensed co-venturers were in fact Ryan Stone, Masis Kevorkian and Kermit Schayltz.

In connection with the background investigation of the Stone Group, the Division visited the Seven-Mile Casino in Chula Vista, California to make a determination as to whether or not the Stone Group was involved in the gambling operation. Our findings revealed:

1. The Stone Group was involved in the hiring of a new General Manager who oversees the entire gaming operation and a new Director of Food and Beverage at the Seven-Mile Casino. The General Manager's employment contract (letter) dated January 5, 2015 contains the name and signature of Masis Kevorkian representing the VC Cardroom Inc.
2. The Stone Group was involved in the hiring of a Director of Food and Beverage employment contract (letter) dated March 6, 2016 contains the name and signature David Jocis¹ representing the VC Cardroom Inc. Both employment contracts require the positions to report to "Senior Management consisting Rod Stone, Ryan Stone, Masis Kevorkian, Harvey Souza and David Jocis.
3. The Stone Group was involved in the purchasing of certain casino management software for The Village Club from a company called Transient Path. On March 4, 2016, the Division sent Transient Path a copy of the authorization release forms executed by Ryan Stone and Masis Kevorkian. On March 10, 2016, Transient Path provided the Division with a copy of the contract executed on March 10, 2015 between Transient Path and The Village Club. The contract was signed by David Jocis as the CEO/president of Licensee VC Cardroom Inc. (now Seven Mile), and "Licensee Contact: Masis Kevorkian, Executive Vice President of the Licensee". Transient Path provided the executed contract to the Division notwithstanding the

¹ Project Manager hired by Souza and has not been licensed by the California Gambling Control Commission for his function as a Senior Manager of Seven Mile Casino. Mr. Jocis is not an applicant with the City of San Jose and therefore he is not considered a subject of this background investigation.

authorization release was executed by Ryan Stone and Masis Kevorkian. Transient Path did not require an authorization form from David Josis because Ryan Stone and Masis Kevorkian were the main players according to the vendor.

Based on all of the foregoing, the Division is convinced that the Stone Group, in particular Ryan Stone and Masis Kevorkian, was involved in the gaming operation of the Seven-Mile Casino albeit not on the casino floor but from behind the scene.

Violation

Masis Kevorkian and Ryan Stone were involved in the gaming operation of the Seven Mile Casino without a State Gaming License in violation of the California Gambling Control Act, Business and Professions Code 19801 (i) and 19853 (a) (3) and (6).

The California Gambling Control Act, Business and Professions Code 19801 Legislative Findings and Declarations:

- i. All gambling operations, all persons having a significant involvement in gambling operations, all establishments where gambling is conducted, and all manufacturers, sellers, and distributors of gambling equipment must be licensed and regulated to protect the public health, safety, and general welfare of the residents of this state as an exercise of the police powers of the state.

The California Gambling Control Act, Business and Professions Code 19853 Registration, Finding of Suitability, or Gambling License; Commission or Department Requirement of Certain Individuals or Corporations:

- a. The commission, by regulation or order, may require that the following persons register with the commission, or apply for a gambling license:
 3. Any person who does business on the premises of a licensed gambling establishment.
 6. Every person who, in the judgment of the commission, has the power to exercise a significant influence over the gambling operation.

Finding 2:

Masis Kevorkian, Ryan Stone and Kermit Schayltz ("Stone Group") provided untrue or misleading information to the administrator by first advising the administrator that the Stone Group was involved in the gaming operation of the Seven Mile Casino in Chula Vista; and after the Division learned that

the Stone Group was doing so without a State gaming license, the Stone Group then denied their involvement.

On June 9, 2015, the Division met with Masis Kevorkian, Ryan Stone and Kermit Schayltz ("Stone Group") at Casino M8trix per the invitation of GCI stockowner Pete Lunardi. The purpose of this meeting was to meet and greet as the three named individuals were interested in purchasing the forty-five (45) percent shares currently held by Eric Swallow and becoming stockowners at GCI. During the meeting, the Stones spoke about their respective experience in the gaming industry and their belief in strong regulations. The Stone Group suggested that the City of San Jose would be happy with them because they believe in regulatory compliance. On several occasions the Stones advised the Division that they operated both the Stones Gambling Hall, a cardroom in the Sacramento area; and the Seven Mile Casino in the Chula Vista/San Diego area. The Stone Group also invited the Division to visit both locations as they believed the Division would be impressed with their operations.

On August 9, 2015, Ryan Stone and Masis Kevorkian came to the Division to submit Ryan Stone's stockowner license application². After the submission of the application, Mike and Adina Conroy, the consultants ("Conroys") hired by the City to assist the administrator with the background investigation of the license applicants, were also at the Division offices attending a meeting unrelated to the Stones' background. The Stones were introduced to the Conroys and a quick meeting was held to discuss the investigation process. During this meeting, both Messrs. Stone and Kevorkian stated that the Division should come to visit their operations at Citrus Heights and Chula Vista. The Conroys suggested that sometime during the background investigation the Conroys may have to conduct a site visit at both Citrus Heights and Chula Vista to which Ryan Stone stated that would not be a problem.

On February 9, 2016 at 2pm, the administrator met with the Stones' legal counsel Mike Lipman regarding the State's accusation that the Stones were involved in the gaming operation of Seven Mile. The Stone Group, through their legal counsel Mr. Lipman, denied that the Stone Group was ever involved in the gaming operation of Seven Mile; and that the Stone Group may have inadvertently used the wrong pronoun "I" instead of "they" when referring to who was actually involved in Seven Mile's gaming operation. Mr. Lipman further stated that Ryan Stone is a young and excitable person and could have inadvertently made any statements regarding his or the Stones' involvement in the gaming operation of the Seven Mile Casino. Mr. Lipman finally stated that the Division will not find anything relating to the Stone Group's involvement other than financial transactions relating to the Stones' \$3 million loan to the Seven Mile (formerly Village Club).

Violation

Based on the Division's finding (Finding 1), the Division has concluded that Ryan Stone, Masis Kevorkian and Kermit Schayltz supplied information which is untrue or misleading to the administrator in violation of SJMC, Title 16, §16.32.070 C.

² Masis Kevorkian and Kermit Schayltz submitted their respective applications on September 9, 2015.

SJMC, Title 16, §16.32.070 Disqualification criteria for license

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

C. The supplying of information which is untrue or misleading.

Finding 3:

Masis Kevorkian, Ryan Stone and Kermit Schayltz all failed to establish by clear and convincing evidence their individual qualifications for a license; failed to cooperate with the administrator and failed to provide all information required by the administrator; and failed to provide information, documentation, and assurances required for qualification or failure to reveal any material fact relating to qualification, or to otherwise fail or refuse to fully cooperate with the administrator's licensing investigation.

The Division received an email requesting a suspension of the licensing investigation of Ryan Stone, Masis Kevorkian and Kermit Schayltz on March 9, 2016. The Division responded on March 16, 2016 that the only option the Stone Group has, as an applicant for a license, is to request for a withdrawal of its application as provided under the San Jose Municipal Code, Title 16, Section 16.32.130. On March 17, 2016, the Division sent the Stones Group, through its designated agent Masis Kevorkian, a formal letter denying said request to suspend the licensing investigation. Furthermore, the Division advised the Stone Group to either request a withdrawal of application by no later than 5pm on March 25, 2016, or the background investigation would resume. Except for a phone message from the Stone Group's legal counsel Mr. Mike Lipman on Saturday, March 26, 2016 suggesting that he would be in contact with the Division on or before March 30, 2016 to discuss the Stone Group's situation as he was leaving for Taiwan that very day, there was no response to the Division's correspondence. Additionally, no such contact was made with the Division by Mr. Lipman anytime after March 26, 2016.

On April 1, 2016, the Division informed the Stone Group, through its designated agent Masis Kevorkian, that the licensing investigation will resume. Attached to the April 1, 2016 letter was a list of outstanding information/documentation previously requested by Conroy and Associates, the consultant retained by the City of San Jose to assist the Administrator, in relation to the Stone Group's background investigation. The Division gave the Stone Group a deadline of 5pm, April 8, 2016 to submit the information/documentation. So far, the Stone Group has not responded to the April 1, 2016 correspondence from the Division and the requested information/documentation has not been provided. As a result, the Administrator was unable to complete the licensing investigation of the stockowner license applicants Masis Kevorkian, Ryan Stone and Kermit Schayltz.

Violation:

Masis Kevorkian, Ryan Stone and Kermit Schayltz, as stockowner license applicants, failed to establish by clear and convincing evidence their individual qualifications for a license in violation of SJMC, Title 16, §16.32.030; failed to cooperate with the administrator and failed to cooperate with the

administrator and failed to provide all information required by the administrator in violation of SJMC, Title 16, §16.32.040.

SJMC, Title 16, §16.32.030 Burden of proving qualifications

"It shall be the responsibility of each license applicant to establish by clear and convincing evidence his or her individual qualifications for a license under this chapter"

SJMC, Title 16, §16.32.040 Applicant cooperation

"Each applicant seeking a license under this title and each licensee shall cooperate with the administrator and shall provide all information required by the administrator"

Additional Information:

On October 8, 2012, the Bureau of Gambling Control ("BGC") filed an accusation (BGC Case No. SA2008-00036)³ Mr. Schalytz and others which Mr. Schayltz ultimately settled with the California Gambling Control Commission ("CGCC") on October 10, 2012. Included in the October 8, 2010 action, information relating to a prior accusation (DGC #SA04-00090-1) being filed by the Division of Gambling Control (now "BGC") on November 28, 2006 alleging that Mr. Schayltz, being a holder of a State Gambling License and as a shareholder of Point-Walker, Inc. which owns the Lucky Derby Casino in Citrus Heights, California, operated a gambling establishment known as the Don Juan Club and Casino in the City of Rancho Cordova, California which Mr. Schayltz was not licensed to operate. Additionally, Mr. Schalytz was also alleged to have operated the Don Juan Casino without holding special business licenses required by the City of Rancho Cordova. On July 25, 2007, Mr. Schalytz accepted the CGCC's proposed disciplinary order and agreed to 1) Point-Walker, Inc. pays a fine of \$30,000 to the Division of Gambling Control; 2) Mr. Schalytz to obey all laws; and 3) Mr. Schalytz to reimburse \$5,000 to the Division of Gambling Control for investigative costs.

Notwithstanding the above, Mr. Schalytz again violated the Gambling Control Act by operating the Seven-Mile Casino⁴ in Chula Vista but without a State Gambling License as described in full under Finding 1 of this notice. Mr. Schalytz shown a pattern of blatant disregard for gaming regulations and he and his partners Ryan Stone and Masis Kevorkian, are therefore disqualified for licensure under Title 16, § 16.32.060 and § 16.32.070.

SJMC, Title 16, §16.32.060 Affirmative criteria for license states: No license shall be issued unless, based on all of the information and documents submitted, the administrator is satisfied that the applicant is all of the following:

A. A person of good character, honesty and integrity.

³ Two causes for discipline were noted with one relating to Mr. Schalytz being alleged to have employed individuals as key employees of the cardroom who were not licensed by the CGC as required; and one relating to Mr. Schalytz operating more tables than authorized. These matters, although contradictory to Mr. Schalytz's previous statement to the Division regarding his positive attitude towards gaming regulations, will not be included herein because it does not demonstrate Mr. Schalytz's pattern of operating a cardroom without a license.

⁴ Also involved were Ryan Stone and Masis Kevorkian.

- B. A person whose current and prior activities, criminal record, if any, reputation, habits, and associations do not
1. Pose a threat to the public interest of the city and state; or
 2. Pose a threat to the effective regulation and control of cardrooms in the city; or
 3. Create or enhance the dangers of unsuitable, unfair, or illegal practices, methods, and activities in the conduct of controlled or in the carrying on of the business and financial arrangements incidental thereto.

SJMC, Title 16, §16.32.070 Disqualification criteria for license states: the administrator may deny a license to any applicant who is disqualified for any of the following reasons:

- A. Failure of the applicant to establish eligibility and qualification by clear and convincing evidence.
- B. Failure to provide information, documentation, and assurances required for qualification or failure to reveal any material fact relating to qualification, or to otherwise fail or refuse to fully cooperate with the administrator's licensing investigation.
- C. The supplying of information which is untrue or misleading

Conclusion

All of the foregoing establishes Masis Kevorkian, Ryan Stone and Kermit Schayltz's failure to comply with the California Gambling Control Act, Business and Professions Code 19801 (i) and 19853 (a) (3) and (6); and SJMC, Title 16, §16.32.030, §16.32.040. Based on the foregoing, I intend to deny Masis Kevorkian, Ryan Stone and Kermit Schayltz's application for a Stock Ownership License pursuant to SJMC, Title 16 §16.32.060 A & B §16.32.070 A, B & C.

Sincerely,



Richard Teng, Administrator
Division of Gaming Control

cc: Eduardo Garcia, Chief of Police
Terra Chaffee, Senior Deputy City Attorney
Mike Lipman, Esq.
Garden City Inc., dba Casino M8trix Permanent File
Applicants Permanent File