

DECEMBER 15, 1997

Licensed Colorado retailers, operators and manufacturers/distributors are reminded that C.R.S. 12-47.1-835 reads:

Financial interest restrictions. (1) (a) No manufacturer or distributor of slot machines or associated equipment shall:

- (I) Have any interest, directly or indirectly, in any operator;
- (II) Allow any of its officers, or any other person with a substantial interest in such business, to have any interest in an operator;
- (III) Employ any person in any capacity or allow any person to represent the business in any way if such person is also employed by an operator;
- (IV) Allow any operator or any person with a substantial interest therein, to have an interest directly or indirectly in the business;
- (V) Allow any operator or any person having a substantial interest therein, to have any interest, directly or indirectly, in such business.

(b) The word "interest" as used in this section does not preclude transactions in the ordinary course of business.

For purposes of this section and by definition, retailer licensees are considered to be operators, although they may not specifically hold a distinct, separate operator license.

The term "interest" most commonly means stock or other type of ownership; however, the Division of Gaming has determined in the past that lessor-lessee relationships and certain other business relationships and joint ventures have constituted prohibited interests. Transactions in the ordinary course of business, such as financing agreements in which a distributor holds a note and has a secured interest in the financed slot machines, do not constitute prohibited interests.

The most common violation of this provision occurs when officers, directors or persons holding a substantial interest in a manufacturer/distributor hold publicly traded stock in a corporation operating as a retailer in Colorado, and

vice versa. Any stock ownership, even publicly traded stock, is prohibited by the statute.

As a result, Division of Gaming investigators will closely scrutinize the financial holdings of businesses and their officers, directors and primary interest holders during a licensee's renewal investigation to ensure prohibited financial interests do not exist. All licensees should themselves ensure that they and their associated persons divest themselves of any prohibited interests in other licensees.