THE DISTRICT OF COLUMBIA ALCOHOLIC BEVERAGE CONTROL BOARD

In the Matter of:)	
Melles Hospitality Group, LLC t/a The Alibi Restaurant & Lounge) Case No.: License Nos.:	N/A 93941
HRH Services, LLC t/a The Alibi)) Order No:)	97969 2015-241
at premises 237 2nd Street, N.W. Washington, D.C. 20001)))	

BEFORE:

Ruthanne Miller, Chairperson

Nick Alberti, Member Donald Brooks, Member Herman Jones, Member Mike Silverstein, Member Hector Rodriguez, Member James Short, Member

ALSO PRESENT:

Melles Hospitality Group, LLC, t/a The Alibi Restaurant & Lounge,

Applicant

Andrew Kline, Counsel, of the Veritas Law Firm, on behalf of the

Applicant

HRH Services, LLC, t/a The Alibi, Intervenor

Martha Jenkins, General Counsel

Alcoholic Beverage Regulation Administration

ORDER GRANTING MOTION FOR RECONSIDERATION AND STAYING CONSIDERATION OF ALL OTHER APPLICATIONS AT 237 2ND STREET, N.W.

INTRODUCTION

On March 11, 2015, the Alcoholic Beverage Control Board (Board) recognized the withdrawal of the Application for a New Retailer's Class CR License (MHG's Application) at 237 2nd Street, N.W., filed by Martin Scahill on behalf of Melles Hospitality Group, LLC, t/a

The Alibi Restaurant & Lounge (hereinafter "Applicant" or "MHG"). Subsequently, HRH Services, LLC, t/a The Alibi, (hereinafter "Intervenor" or "HRH") filed an Application for a New Retailer's Class CR License (HRH's Application) at the same address.

As the Board began its review of HRH's Application, MHG raised objections regarding the withdrawal filed by Mr. Scahill. Specifically, Abraham Melles, the managing member of MHG—and the only person with the authority to take action on behalf of the entity—had no idea that Martin Scahill, one of the members of the LLC, had withdrawn MHG's Application and transferred MHG's lease to HRH.

Based on the Board's review of the pleadings filed by MHG and HRH, the Board agrees with MHG that Mr. Scahill lacked the authority to withdraw MHG's Application or transfer the lease to HRH. Therefore, the Board grants the motion filed by MHG. The Board also deems HRH's Application incomplete for lack of a valid lease. As a practical matter, this means that MHG is entitled to return to the point in the application process just before the improper withdrawal motion was filed. In turn, this also means that HRH's Application, or any other application for licensure at 237 2nd Street, N.W., cannot be considered until the application process related to MHG's Application is complete.

The Board's reasoning, instructions for proceeding with MHG's Application, and final Order are provided below.

ARGUMENTS OF THE PARTIES

- 1. MHG's written motion requests that the Board rescind the Board Order recognizing the withdrawal of MHG's Application. *Mot. for Recon.*, 1. MHG asserts that Martin Scahill lacked the authority to withdraw the application based on the Operating Agreement or transfer the lease to HRH. *Id.* at 1-2. While not necessarily relevant to the present controversy, MHG further suspects that Mr. Scahill wrongfully withdrew the application and wrongfully transferred the lease in order to allow Mr. Scahill to cut his partners from the business and to secretly operate a licensed establishment through the auspices HRH, which is owned by Mr. Scahill's alleged domestic partner, Rachel Traverso. *Id.* at 2-3. In support of its motion, MHG has provided the Board with its Operating Agreement, the Affidavit of Abraham Melles, and a copy of the Lease Assignment between Mr. Scahill and HRH. *Id.* at Exhibits A-C.
- 2. HRH argues that the Board's Order should be upheld. *Pet. in Protest of Mot. for Recon. of the Order on Withdrawal*, 1 (Apr. 8, 2015) [*Pet.*]. HRH supports its opposition by highlighting the eviction proceeding brought against MHG by the landlord; HRH's expenditures to cover MHG's rent; and MHG's lack of good standing as an organization. *Id.* at 1-2. HRH asserts that it has no formal relationship with Mr. Scahill and that the purpose of Mr. Scahill's actions was to find a substitute tenant. *Id.* at 3.

3. In reply, MHG counters the arguments presented by HRH. Reply Brief in Support of Mot. for Recon. of the Order on Withdrawal, 1 (Apr. 20, 2015) [Reply]. First, MHG notes that it still has possession of the premises, because the eviction matter was "dismissed for want of prosecution." Id. at 1-2, Exhibit A. Second, MHG notes that Mr. Scahill's desire to find a substitute tenant does not provide him with the authority to act on behalf of MHG. Id. at 2. Third, MHG notes that its lack of good standing, which has been corrected, did not authorize Mr. Scahill to act on behalf of the business pursuant to Accurate Const. Co. v. Washington, 378 A.2d 681 (D.C. 1977) and Title 29 of the D.C. Official Code. Id. at 2-3.

FINDINGS OF FACT

The most recent controversy stems from the following facts:

I. The First Alibi Application (MHG)

- 4. The Alcoholic Beverage Control Board (Board) received an Application for a New Retailer's Class CR License (MHG's Application) from Melles Hospitality Group, LLC, t/a The Alibi Restaurant & Lounge (hereinafter "Applicant" or "MHG") at premises 237 2nd Street, N.W., Washington, D.C. *ABRA Licensing File No. 93491*, CAP Summary.
- 5. ABRA's records show that MHG has applied for "405.1 status"; whereby, a licensee may seek approval of the license before obtaining a certificate of occupancy. *See generally_*23 DCMR § 405.1 (West Supp. 2015). The Alcoholic Beverage Regulation Administration (ABRA) published notice of the Application in the District of Columbia (D.C.) Register and complied with the notice requirements of D.C. Official Code § 25-421. 60/47 D.C. Reg. 4614695 (Nov. 1, 2013). A placard notifying the public was posted on November 1, 2013. *Id.* The Board held a Fact Finding Hearing regarding the Application on January 29, 2014.
- 6. On April 9, 2014, the Board served a Notice Ordering Applicant to Demonstrate Fitness for Licensure Under § 25-301 (Notice) on MHG. Specifically, Count I alleges that Abraham Melles, Martin Scahill, and Hailemaryam Negash are unfit for licensure, because they permitted the consumption of alcohol on the premises in violation of D.C. Official Code § 25-102(d) on or about October 26, 2013, as well as on other occasions after August 2013. *In re Melles Hospitality Group, LLC, t/a The Alibi Restaurant & Lounge*, Board Order No. 2013-119 (D.C.A.B.C.B. Apr. 9, 2014). Count II alleges that Mr. Scahill is individually unfit for licensure for the following separate reasons: (1) the Application is a means to avoid the \$16,500 in delinquent fines owed by Arias, Inc. t/a My Brother's Place, (My Brother's Place), ABRA License Number 071593, that had accrued before its cancellation in August 2013, and (2) Mr. Scahill's prior actions demonstrate a lack of desire and ability to prevent underage drinking in compliance with the law. *In re Melles Hospitality Group, LLC, t/a The Alibi Restaurant & Lounge*, Board Order No. 2013-129, 1-2 (D.C.A.B.C.B. Apr. 23, 2014) (amending the April 9 Order).

- 7. The Board further notes that the Application is subject to replacarding in accordance with Board Order No. 2014-067. *In re Melles Hospitality Group, LLC, t/a The Alibi Restaurant & Lounge*, Board Order No. 2014-067, 3 (D.C.A.B.C.B. Feb. 26, 2014).
- 8. On October 22, 2014, the Board formally rejected a settlement offer proffered by MHG. In re Melles Hospitality Group, LLC, t/a The Alibi Restaurant & Lounge, Board Order No. 2014-428, 1 (D.C.A.B.C.B. Oct. 22, 2014) (Order Denying Motion to Intervene, Rejecting Settlement Offer, and Scheduling Qualifications Hearing). The Board then ordered that the Qualifications Hearing would occur on November 13, 2014 at 1:30 p.m. Id. at 1-2.
- 9. The Qualifications Hearing ordered by the Board never occurred as scheduled. Instead, the Alcoholic Beverage Regulation Administration (ABRA) received a signed letter from Martin Scahill on January 21, 2015, withdrawing MHG's Application. *Letter from Martin Scahill to General Counsel Martha Jenkins*, (Jan. 21, 2015). According to the letter,

Melles Hospitality Group formally requests that its application . . . be withdrawn. As of January 12th 2015, Melles Hospitality Group no longer holds the lease at 237 2nd St NW, Washington, DC 20001 and therefore has no desire, need or legal standing to apply for an ABC license in the District of Columbia.

- *Id.* The letter itself appeared to contain the official letterhead of Melles Hospitality Group. *Id.* Additionally, Martin Scahill identified himself as the "Owner" and "Representative" of the LLC in the signature block. *Id.*
- 10. On March 11, 2015, in Board Order No. 2015-086, the Board issued an order that recognized the withdrawal. *In re Melles Hospitality Group, LLC, t/a The Alibi Restaurant & Lounge*, Board Order No. 2015-086 (D.C.A.B.C.B. Mar. 11, 2015) (ABRA License No. 93491) (Order on Withdrawal).

II. Ownership and Control of MHG

- 11. ABRA's records show that the ownership of MHG is split among three members: Abraham Melles, who owns 36 percent of the LLC, Martin Scahill, who owns 49 percent of the LLC, and Hailemaryam Negash, who owns 15 percent of the LLC. *ABRA Licensing File No. 93491*, *ABRA Application*, 1 (Submitted Oct. 18, 2013). In MHG's Application, Mr. Melles is designated the LLC's "managing member." *Id*.
- 12. Section 11 of MHG's operating agreement states the following:
 - The Company shall be managed by one or several Manager(s)

 Abraham Melles is designated to serve as the initial Manager until he shall resign or be removed . . . and his respective successor is duly elected.

- The Manager shall have full and complete, exclusive discretion, power, and authority . . . to manage, control, administer, and operate the business and affairs of the Company . . . including . . . the power to:
 - enter into agreements and contracts and to give receipts, releases and discharges; . . .
 - execute leases or lease modification agreements with respect to any part or all of the assets of the Company;
 - 11.3.8 construct, operate, maintain, finance, and improve, and to own, sell, convey, assign, mortgage or lease any real estate and any personal property; . . .
 - 11.3.10 execute any and all other instruments and documents which may be necessary or desirable to carry the intent and purpose of this Agreement

Mot. for Recon. of the Order on Withdrawal, Exhibit A (Mar. 30, 2015) [Mot. for Recon.].

III. The Second Alibi Application (HRH)

- 13. On January 29, 2015, HRH Services, LLC, t/a The Alibi, (hereinafter "Intervenor" or "HRH") filed an Application for a New Retailer's Class CR License (HRH's Application) at 237 2nd Street, N.W., Washington, D.C. 20001—the same address indicated in MHG's pending application. *ABRA Licensing File No. 97969*, ABRA Application, 1. The ownership of HRH is split evenly between Rachel Traverso and Richard Traverso. *Id*.
- 14. As required by the application, HRH provided a lease assignment agreement to the Board. *ABRA Licensing File No. 97969*, Lease Assignment, 1. The Lease Assignment purports to be an assignment of the lease of 237 2nd Street, N.W., held by MHG to HRH. *Id.* The Lease Assignment noted that Martin Scahill was the "Manager of the Assignor" and had the authority to act on behalf of MHG. *Id.* at § 1.01 (Assignment). The agreement further transferred "[a]ll trade fixtures and restaurant equipment existing in the Leased premises . . ." to HRH. *Id.* at § 3 (No Release). The signature block signed by Martin Scahill indicated that he was the manager of Melles Hospitality Group, LLC. *Id.* (First Signature Page).
- 15. The Board held a fact finding hearing on March 18, 2015, in order to obtain additional information regarding HRH's Application. *Transcript (Tr.)*, March 18, 2015 at 1, 3. During the hearing, counsel for MHG argued that the withdrawal of MHG's application was not properly authorized by the LLC's Managing Member. *Id.* at 4-5. Because the Board was not in a position to address this issue at the fact finding hearing, the Board gave MHG ten days to file a written motion requesting that the Board vacate the order recognizing the withdrawal of the application. *Id.* at 50. Furthermore, recognizing that the disposition of the motion could impact the rights and

interests of HRH, the Board also permitted HRH to respond to the motion as an intervenor in accordance with § 1701.4 for the purpose of protecting its interest in obtaining licensure at 237 2nd Street, N.W. *Id.*; 23 DCMR § 1701.4 (West Supp. 2015).

IV. Affidavit of Abraham Melles

16. MHG has provided the sworn affidavit of Abraham Melles, the managing member of the LLC. *Mot. for Recon.*, Exhibit B, \P 2. Mr. Melles indicates that he "...had no knowledge..." of the withdrawal letter and that MHG never gave Mr. Scahill "... any authority... to act on behalf of the company." *Id.* at $\P\P$ 6-7.

V. Eviction Proceedings Against MHG

17. The website of the District of Columbia Courts indicates that Second Street Properties, LLC, the landlord of 237 2nd Street, N.W., filed an eviction claim against MHG. Second Street Properties, LLC, v. Melles Hospitality Group, LLC, 2014 LTB 031796 (D.C. Sup. Ct., Jan. 7, 2015); Mot. for Recon., at Exhibit A. Court records indicate that Judge Brian Holeman dismissed the suit for want of prosecution under Rule 11 on January 7, 2015. Id.

VI. Entity Status of MHG

18. MHG admits that the District of Columbia Department of Consumer and Regulatory Affairs (DCRA) deemed its entity status revoked during the pendency of its Application. *Reply*, at 2-3 ("... Melles has taken the necessary steps to place MHG back into good standing ..."). It also appears that MHG made efforts to restore its entity status after it filed its motion. *Reply*, at 3. The Board takes administrative notice that MHG's entity status has been deemed "active" as of April 27, 2015, by the DCRA. *District of Columbia Department of Consumer and Regulatory Affairs Initial File Number L00004759742* (Melles Hospitality Group, LLC) (on file with ABRA).

VII. ABRA Application

- 19. The Application for a new Alcoholic Beverage Control (ABC) License instructs applicants that
 - [a] lease is required if you are leasing the space . . . All lease documents must be signed by the property owner and contain specific authorization to sell and serve alcoholic beverages on the premises. The lease must be in the applicant's name, i.e., . . . LLC

Instructions for Filing an Alcoholic Beverage Control (ABC) License Application, Alcoholic Beverage Regulation Administration, 5, also available at http://abra.dc.gov/sites/default/files/dc/sites/abra/publication/attachments/ABC_License_Application_2014.pdf (last visited Apr. 23, 2015).

VIII. Relationship Between Martin Scahill and Rachel Traverso

20. There is evidence in the record that Martin Scahill and Rachel Traverso have a prior relationship. First, a November 8, 2013 internet post to *Facebook* indicates that Rachel Traverso and Martin Scahill were engaged. *Facebook*, Webpage of Martin Scahill, https://www.facebook.com/, 1-3 (on file with ABRA) (last visited Jan. 29, 2014). Second, according to ABRA's files, Martin Scahill and Rachel Traverso share a residence at 708 G Street, S.E. *Compare ABRA Licensing File No. 93491*, Personal History Affidavit (Martin Scahill), The Alibi Restaurant and Lounge (See answer to Question 8) with ABRA Licensing File No. 97969, Clean Hands Certification (Rachel Traverso) (See answer to "Home Address").

CONCLUSIONS OF LAW

21. The Board agrees with MHG that Martin Scahill lacked the authority to withdraw MHG's application; therefore, it merits reinstatement. Furthermore, based on the information provided by the parties, it is clear that the lease provided by HRH Services, LLC, t/a The Alibi, (hereinafter "Intervenor" or "HRH") is invalid; therefore, HRH's Application cannot be considered by the Board under 23 DCMR § 500.1.

I. THE BURDEN OF PROOF LIES WITH MHG.

22. Under the D.C. Administrative Procedure Act, "[i]n contested cases . . . the proponent of a rule or order shall have the burden of proof." D.C. Official Code § 2-509(b). In this case, the burden of proof rests with MHG, because it is the proponent of an order vacating the withdrawal of its application.

II. MARTIN SCAHILL LACKED THE AUTHORITY TO WITHDRAW MHG'S APPLICATION; THEREFORE, MHG'S APPLICATION MUST BE REVIVED.

- 23. The Board agrees with MHG that Martin Scahill lacked the authority to withdraw MHG's Application based on the Operating Agreement.
- 24. Under § 1706.3, "[i]n any proceeding before the Board, an officer of a corporation or association may represent the corporation or association, if authorized to do so by the Board of Directors of the corporation or association." 23 DCMR § 1706.3 (West Supp. 2015). Further, under § 1706.5, "[a]ny party appearing or having the right to appear before the Board in any proceeding shall have the right to representation by an attorney or designated representative of his or her choice." 23 DCMR § 1706.5 (West Supp. 2015).
- 25. Under MHG's Operating Agreement, MHG solely designated Abraham Melles to serve as the LLC's Managing Member. *Supra*, at ¶ 12 (See § 11.1). The Operating Agreement solely imbued Mr. Melles—not Mr. Scahill—with the authority to control the legal affairs of MHG, including the authority to enter into contracts and "lease modification agreements." *Id.* (See §§

7

¹ This information was obtained by ABRA's Enforcement Division during an investigation of MHG's Application.

- 11.3.1, 11.3.7-.8, 11.3.10). There is also no evidence that MHG designated Mr. Scahill with the authority to represent the LLC. *Supra*, at ¶ 16. In light of these facts, Mr. Scahill could not be considered MHG's representative under § 1706.3 at the time he requested the withdrawal of the MHG's Application or entered into an assignment of lease agreement with HRH.
- 26. Therefore, the Board must vacate its prior Order, because to do otherwise would violate MHG's right to a representative of its choice under § 1706.5, and potentially MHG's right to due process under the law.
 - a. Under Title 29 of the D.C. Official Code, Mr. Scahill did not obtain the authority to represent MHG based on the revocation of MHG's entity status.
- 27. Contrary to HRH's argument, it is irrelevant to the Board's determination that MHG's entity status was deemed revoked by DCRA. *Supra*, at ¶¶ 2, 18.
- 28. Under § 106.3.02(c) of Title 29 of the D.C. Official Code, "[a] domestic filing entity that is dissolved administratively continues its existence as an entity, but shall not carry on any activities or affairs except as necessary to wind up its . . . affairs . . ." D.C. Official Code § 29-106.02(c). Furthermore, under § 29-106.03(d), upon reinstatement, "the domestic filing entity shall resume carrying on its activities and affairs as if the administrative dissolution had never occurred" D.C. Official Code § 29-106.03(d).
- 29. In this case, MHG is an LLC registered in the District of Columbia. *Supra*, at ¶¶ 1, 18. In accordance with § 29-106.3.02(c), the revocation of its entity status did not terminate the existence of MHG, but limited the LLC's activities to winding up its affairs until its entity status was restored in accordance with § 29-106.03(d). Consequently, the fact that MHG lost its entity status did not suddenly imbue Mr. Scahill with the authority to dispose of the LLC's assets; instead, the Operating Agreement remained in effect, and any actions taken by MHG had to be in accordance with that agreement. *Supra*, at ¶ 18.

III. HRH'S APPLICATION IS INCOMPLETE UNDER § 500 BECAUSE IT LACKS A VALID LEASE; THEREFORE, HRH'S APPLICATION CANNOT BE CONSIDERED BY THE BOARD.

- 30. MHG has also demonstrated that Mr. Scahill lacked the authority to transfer its lease to HRH.
- 31. Under § 500.1, "[t] he Board shall not accept as filed, and shall take no action upon, any application that is not complete." 23 DCMR § 500.1 (West Supp. 2015). Under § 25-401(a), all applicants for licensure must submit an application containing "any . . . information the Board may require." D.C. Official Code § 25-401(a). In this case, the Board requires that all applicants for a new license file a lease with the Board. *Supra*, at ¶ 19.
- 32. As noted above, MHG's Operating Agreement did not provide Mr. Scahill with the authority to withdraw MHG's Application or assign the lease to HRH. *Supra*, at ¶ 12. The

lease only contains the signature of Martin Scahill, who is misidentified in the lease as the manager of MHG. *Supra*, at ¶¶ 12, 14. Consequently, HRH failed to file a valid lease with its Application and has not satisfied the requirements for consideration by the Board.

a. MHG is still in possession of the premises

33. As noted by MHG, it is still in possession of the premises. Supra, at ¶ 17. While the landlord may have filed for eviction, the claim was dismissed by the court. Id. Therefore, the Board cannot otherwise deny MHG's Application for failing to have control of a premises or failing to have a valid lease.

b. It is irrelevant that HRH has paid rent or engaged in other actions that benefit MHG.

34. While not relevant to the Board's consideration in this case, the Board is also not persuaded by HRH's claims that it should be credited for taking over the obligations of MHG. Supra, at ¶ 2. Under § 29-106.03(d), MHG's managing member still retained the right to wind up the LLC's affairs, not Mr. Scahill. The record shows that the deal struck between Mr. Scahill and HRH was not an arm's length transaction. Supra, at ¶ 20. While a non-arm's length transaction can be legitimate, when one member of an LLC engages in a transaction with a close associate, without the knowledge or approval of the other members, it raises serious questions about the legitimacy of the action. As a result, if the other members of the LLC were not aware of or did not approve of the transaction, Mr. Scahill likely deprived the other members of their interest in the application, or, at the very least, the right to obtain the maximum value for MHG's assets.

CONCLUSION

35. It is the policy of the Board to only consider one application for a specific location at a time. Furthermore, as shown by the facts in this case, MHG, through its lease, is the only entity that can establish lawful control of the premises at this time; therefore, no other applicants can provide a valid lease as required. As a result, until the application process related to MHG's Application is complete, the Board will not consider any additional applications for licensure at 237 2nd Street, N.W.

ORDER

Therefore, the Board, on this 6th day of May 2015, hereby **GRANTS** the motion for reconsideration filed by MHG; therefore, the Board **REINSTATES** MHG's Application, and **VACATES** Board Order No. 2015-086.

IT IS FURTHER ORDERED that MHG has thirty (30) days to file a request to schedule the Qualification Hearing, propose an amendment to the application that would satisfy the concerns raised by the Board, or request a continuance of the Qualifications Hearing, if there

is good cause.² D.C. Official Code § 25-441. The Board notes that if MHG fails to file a timely request or motion, MHG shall be deemed to have waived its right to a hearing.

IT IS FURTHER ORDERED that HRH's Application is deemed INCOMPLETE pursuant to 23 DCMR § 500 (West Supp. 2015). Therefore, the Application shall not be placarded or otherwise considered by the Board at this time.

IT IS FURTHER ORDERED that all applications for licensure, including the Application filed by HRH Services, LLC, at 237 2nd Street, N.W., shall be **STAYED**, and not considered by the Board, until at least one of the following events occur:

- (1) MHG voluntarily withdraws or abandons its application;
- (2) the Board approves or denies MHG's application for licensure;
- (3) MHG is evicted from the property; or
- (4) a court order authorizes the landlord to lease the premises to another applicant or otherwise overturns the decision rendered by the Board in this matter.

² While the Board has not seen any of the underlying pleadings, the Board is aware through court records contained on "Court Cases Online" that there are multiple lawsuits pending involving the parties and the landlord that may involve similar issues. See Melles Hospitality Group, LLC, et al. v. Martin Scahill, 2015 CA 002930 (filed on Apr. 23, 2015); Melles Hospitality Group, LLC v. HRH Services, LLC, 2015 LTB 009095 (filed on Apr. 20, 2015); Second Street Properties, LLC, v. Melles Hospitality Group, LLC, 2015 LTB 009664 (filed on Apr. 27, 2015).

District of Columbia Alcoholic Beverage Control Board

Ruthanne Miller, Chairperson

Nick Albert, Member

Donald Brooks, Member

Herman Jones, Member

Mike Silverstein, Member

Hector Rodriguez, Member

James Short, Member

Pursuant to 23 DCMR § 1719.1, any party adversely affected may file a Motion for Reconsideration of this decision within ten (10) days of service of this Order with the Alcoholic Beverage Regulation Administration, Reeves Center, 2000 14th Street, NW, 400S, Washington, D.C. 20009.

Also, pursuant to section 11 of the District of Columbia Administrative Procedure Act, Pub. L. 90-614, 82 Stat. 1209, D.C. Official Code § 2-510 (2001), and Rule 15 of the District of Columbia Court of Appeals, any party adversely affected has the right to appeal this Order by filing a petition for review, within thirty (30) days of the date of service of this Order, with the District of Columbia Court of Appeals, 430 E Street, N.W., Washington, D.C. 20001; (202/879-1010). However, the timely filing of a Motion for Reconsideration pursuant to 23 DCMR § 1719..1 stays the time for filing a petition for review in the District of Columbia Court of Appeals until the Board rules on the motion. See D.C. App. Rule 15(b) (2004).