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TURLOCK RESIDENTS FOUND GUILTY OF IMPORTING AND DISTRIBUTING COUNTERFEIT DVDS

Defendants Received Government Benefits While Operating Business from a Garage

FRESNO, Calif.—United States Attorney Benjamin B. Wagner announced today that a jury returned guilty verdicts on 15 counts against KAREN JEAN FREYLING, 47, and 15 counts against STEVEN WALTER BUTTS, 62, of Turlock, related to their operation of a major Internet-based DVD importation and distribution business as well as fraudulent receipt of government benefits. The charges included conspiracy; wire fraud; mail fraud; importing goods into the United States by means of false statements; smuggling; trafficking in counterfeit labels, documentation, or packaging; Social Security fraud; and making false statements.

This case is the product of an investigation by the United States Postal Inspection Service, the Federal Bureau of Investigation, the California Employment Development Department, the United States Social Security Administration Office of Inspector General, and United States Customs and Border Protection.

According to Assistant United States Attorneys David L. Gappa and Matthew D. Segal, who are prosecuting the case, evidence presented at trial showed that FREYLING and BUTTS began selling counterfeit DVDs online in 2006. After their accounts with Amazon.com Inc. and eBay Inc. were suspended, the defendants opened three Web sites: www.familydvdwholesale.com, www.dvds2gowholesale.com, and www.movieareus.com. They made numerous false statements in order to promote the sale of their counterfeit merchandise, including the following: that they were selling new, factory shrink-wrapped DVDs; that they had been in business for more than 15 years; that BUTTS was either employed by the Department of Justice or the Turlock Police Department; that they were selling the DVDs as a family business for the benefit of underprivileged children; and that all of their merchandise was legitimate, because it had cleared U.S. Customs.

In fact, the evidence at trial established that BUTTS and FREYLING imported counterfeit DVDs in bulk from suppliers in the Philippines by means of false customs declarations. Even after U.S. Customs and Border Protection had seized several inbound packages and notified the defendants of the seizures, the defendants continued to represent to customers that their DVDs were legitimate. A representative of the Motion Picture Association of America (MPAA) testified at the trial that the defendants were selling extremely high quality pirated movies. Evidence established that the defendants made at least \$272,000 in deposits into one bank account and \$422,000 in deposits into a different account. The defendants purchased more than 128,000 individual DVD cases that were packaged with counterfeit DVDs and labels and then shipped to thousands of customers throughout the United States. Many victims filed complaints with the Better Business Bureau, the MPAA, Ripoff Report, and their credit card companies.

During the course of the conspiracy FREYLING received thousands of dollars in Supplemental Security Income payments and BUTTS received thousands of dollars in California unemployment insurance benefits to which neither was entitled.

On October 8, 2008, three vehicles, three bank accounts, eight flat-panel televisions, six computers, and other items used to commit the offenses were seized and have been forfeited. In addition, the defendants had three employees, EARL EDWARD RIEDEL, 49 , RAYMOND PAUL MOTT, 47, and STEVEN ALAN LOBUE, 49, all of Turlock, who separately pleaded guilty on December 21, 2009, to a misdemeanor charge of criminal infringement of copyright. They face up to one year in prison and a \$100,000 fine when they are sentenced on March 1, 2010.

The court has scheduled a sentencing hearing for FREYLING and BUTTS for April 22, 2010, at 9:00 a.m. They face maximum punishments of 20 years for each count of wire and mail fraud, five years for the conspiracy, smuggling, entry of goods by false statements, Social Security fraud, and false statement counts. For each count, there is also a potential fine of \$250,000. The actual sentence, however, will be determined at the discretion of the court after consideration of the Federal Sentencing Guidelines, which take into account a number of variables and any applicable statutory sentencing factors.

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