



**U.S. Department of Justice**

*United States Attorney  
Eastern District of New York*

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**FOR IMMEDIATE RELEASE**

## **PRESS RELEASE**

### **MASSIVE INTERNET AND CREDIT CARD FRAUD BILKS CONSUMERS OUT OF \$230 MILLION IN BOGUS “FREE TOURS” OF ADULT ENTERTAINMENT WEBSITES – GAMBINO SOLDIER, TWO EXECUTIVES AND 5 COMPANIES INDICTED**

**ROSLYNN R. MAUSKOPF**, United States Attorney for the Eastern District of New York, **KEVIN P. DONOVAN**, Assistant Director-in-Charge of the New York Office of the Federal Bureau of Investigation, **WILLIAM E. KEZER**, Inspector-in-Charge, New York Division, U.S. Postal Inspection Service, and **PAUL L. MACHALEK**, Special Agent-in-Charge, Internal Revenue Service – Criminal Investigation, announced today the unsealing of an indictment against **RICHARD MARTINO**, a member of the Gambino Organized Crime Family of La Cosa Nostra (the “Gambino Family”), two executives and five corporations for their participation in a massive internet fraud scheme that bilked thousands of unwitting consumers in the United States, Europe and Asia of up to \$230 million. The defendants are

charged with running bogus “free tours” of adult entertainment websites. The websites are based on magazines published by The Crescent Publishing Group, Inc. (“Crescent”), a Manhattan-based publishing company and the successor to Drake Publishing, Inc. During 2000, Crescent published over a dozen different magazines and had almost \$40 million in print revenue. Crescent is cooperating in the investigation.

The defendants are charged with conspiracy to commit mail and wire fraud, conspiracy to commit credit card fraud, and conspiracy to commit money laundering. The indictment also seeks forfeiture of up to \$230 million in assets, and specifically seeks forfeiture of the defendants’ multimillion dollar luxury homes in New York and California as substitute assets.

The individual defendants RICHARD MARTINO, NORMAN CHANES and BRUCE CHEW were arrested earlier today and will be arraigned this afternoon by United States Magistrate Judge Lois Bloom at the U. S. Courthouse, 225 Cadman Plaza East, Brooklyn, New York.

### The Scheme to Defraud

According to the indictment, the websites were part of a joint venture formed in 1996 between Crescent and the defendant LEXITRANS, INC., which was secretly controlled by MARTINO, and featured content from magazines published by Crescent, including *Playgirl*

(<playgirlmag.com>), *High Society* (<highsociety.com>), *Climax* (<climaxmag.com>) and *Young Girls* (<ygal.com>) (collectively, the “websites”). The websites were principally designed by the defendant HARVEST ADVERTISING, INC.

The heart of the scheme involved advertised “free tours” of the websites. The defendants tricked the users into providing credit or debit card information, purportedly as proof of age, and promised that the card would “NOT BE BILLED!” In fact, the cards were billed, typically \$59.99 per month after the initial website visit, without the users’ knowledge or consent. The defendants employed various means to prevent users from leaving the websites, including disabling the “go back” button on the users’ browsers, and failing to include an “exit” or “home” button within the free introductory portion of the tour. In addition, the defendants hid price information by burying vague language in the middle of sexually explicit text which was superimposed over sexually explicit images on the websites. The defendants received numerous complaints from users, but they refused to alter the fraudulently deceptive design of the websites.

### Chargebacks and Refunds

Virtually from the inception of the scheme, Crescent received an extremely high number of “chargebacks” from disgruntled website users who complained about unauthorized charges to their credit cards. A chargeback occurs when a consumer disputes a charge and receives a credit on his or her bill, which in this case was debited from Crescent. During 1999, Crescent’s chargeback rate was more than ten percent, the third highest rate among millions of companies participating in the Visa program within the United States. Facing escalating fees imposed by Visa for excessive chargebacks and the prospect of termination from the Visa program, the defendants created a series of shell companies with new bank accounts – all

secretly controlled by Crescent – on a continuous, rolling basis, in violation of Visa’s operating regulations, and abandoned their old accounts as chargeback rates mounted. In a further effort to reduce chargebacks and conceal their scheme, the defendants attempted to settle individual customer complaints internally at Crescent rather than at the banks. In these instances, the defendants typically provided refunds only when expressly demanded by the user, and otherwise simply canceled the consumer’s website membership.

#### Termination by Visa

In April 2000, as the rate of chargebacks continued at an unacceptably high rate, Visa terminated the rights of Crescent, its chief executive officer, BRUCE CHEW, and its chief financial officer, to participate in the Visa program in the United States. In response, the defendants consolidated their credit card processing operations offshore. In September 2000, Visa barred Crescent, its chief financial officer, and CHEW from participating in the global Visa program. Despite this ban, the indictment alleges that CHEW and Crescent attempted to continue operating the websites through nominees.

#### Disposition of Illegal Proceeds

The indictment alleges that MARTINO and the defendant NORMAN CHANES used several companies, including MICAL PROPERTIES, INC., DYNAMIC TELECOMMUNICATIONS, INC., and WESTFORD TELECOMMUNICATIONS, INC., to launder the proceeds of their fraud scheme. In addition, MARTINO funneled millions of dollars of the illegal proceeds to other corporations he and CHANES controlled. Using these corporations, from June 1999 through June 2000, MARTINO transferred more than \$8 million in website proceeds to a higher ranking member of the Gambino Crime Family.

#### Lawsuit by the Federal Trade Commission and the New York Attorney General

Based on the receipt of numerous consumer complaints, in August 2000, the Federal Trade Commission and the New York State Attorney General jointly filed a civil complaint against Crescent, certain affiliated companies, CHEW and Crescent's chief financial officer, in the United States District Court for the Southern District of New York. In March 2001, the court issued a preliminary injunction against those defendants. In September 2001, the civil defendants agreed to pay \$30 million in penalties, and to entry of a permanent injunction in settlement of that lawsuit, without admitting liability.

### Forfeiture

The indictment seeks forfeiture of up to \$230 million, and specifically seeks the defendants' interest in the following substitute assets valued at more than \$20 million: from MARTINO, his residence in Southhampton, New York, valued at \$4 million, his residence in Tuckahoe, New York, valued at \$580,000, and real property in Harrison, New York, valued at \$2.1 million; from CHANES, his residence in Southhampton, New York, valued at \$11 million, a residence in Santa Monica, California, valued at \$1 million, and a cooperative apartment on Central Park West in Manhattan; from CHEW, his residence in Lloyd Harbor, New York, valued at \$1.2 million. Further, the government has obtained a post-indictment restraining order restraining a certificate of deposit at JP Morgan Chase in the approximate amount of \$679,000 owned by MICAL.

In announcing the indictment, **MS. MAUSKOPF** thanked the Federal Trade Commission and the New York State Attorney General for their assistance and stated, "The defendants created a web of lies and deception to trap unwary consumers on the internet. They did so by lulling consumers into a false sense of security and tricking them into providing their

credit and debit card information. As result, millions of dollars went from consumers' bank accounts and into the defendants' pockets. This massive scheme undermined public trust in e-commerce around the world, and now it is the defendants who will have to pay the consequences." **MS. MAUSKOPF** emphasized that the investigation is continuing.

FBI Assistant-Director-in-Charge **DONOVAN** stated, "The charges brought today demonstrate both the avarice and the adaptability of the Gambino crime family. Martino's scheme netted the family hundreds of millions of dollars, befitting his status as one of the Gambinos' biggest earners. The violence that is often an integral component of mob transactions is part of the means, not the end. It's all about the money; and the results of Martino's scheme were colossal. Now we go about the business of tracking down the money and getting it back."

Postal Inspector-in-Charge **KEZER** stated, "This case is one example of emerging crimes involving the use of the internet to victimize consumers around the world. Believing they had the proverbial cash cow, the defendants milked millions of dollars from thousands of victims and they did so with little effort. I commend the joint investigative efforts of the U.S. Postal Inspection Service, the Federal Bureau of Investigation and the Internal Revenue Service."

IRS Special-Agent-in-Charge **PAUL L. MACHALEK** stated, "It's sad that these people ripped off consumers, but what is worse is they are slapping America in the face during financially difficult times by secretly laundering their unlawful gains."

If convicted, the individual defendants face up to 5 years in prison on the wire fraud conspiracy charge, 15 years in prison on the credit card fraud conspiracy charge, and 20 years in prison on the money laundering conspiracy charge. They also face fines of up to

\$500,000 on the money laundering conspiracy charge and \$250,000 on each of the other charges, or up to twice their gains, the loss to the public, or the amount of funds laundered, which is \$230 million. The corporate defendants face fines up to \$500,000 or twice their gains, the loss to the public, or the amount of the funds laundered.<sup>1</sup>

The case has been assigned to United States District Judge Carol B. Amon.

**The Defendants:**

RICHARD MARTINO  
DOB: November 11, 1959  
Harrison, New York

NORMAN CHANES  
DOB: January 27, 1947  
New York, New York

BRUCE CHEW  
DOB: May 24, 1952  
Lloyd Harbor, New York

MICAL PROPERTIES  
also known as “Telcom Online, Inc.”  
New York, New York

LEXITRANS, INC.  
Overland Park, Kansas

HARVEST ADVERTISING  
New York, New York

DYNAMIC TELECOMMUNICATIONS, INC.  
Westford, New Jersey

WESTFORD TELECOMMUNICATIONS, INC.  
Westford, New Jersey

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<sup>1</sup> The charges contained in the indictment are merely allegations, and the defendants are presumed innocent unless and until proven guilty.