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Porn's New King

By [Seth Lubove](#)

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The son of notorious white-collar scamster John Peter Galanis John Peter Galanis has quietly resurfaced as the buyer of the nation's largest processor of payments for Internet porn.

Credit-card processor Intercept 's 2002 acquisition of Internet Billing, or iBill, may go down in history as one of the most boneheaded acquisitions ever by a public company. Now, it's finding it just as embarrassing to get rid of iBill.

iBill is the largest processor of credit-card payments for the purchase of dirty digital pictures (see "[Visa's Porn Crackdown](#)"). It is literally the engine of paid Internet porn. The company had successfully operated anonymously behind the scenes until 2002, when Intercept paid \$104 million to acquire iBill from its founders. After first telling investors that porn made up just a minor amount of iBill's business, Intercept (which had \$259 million in revenue for 2003) finally confessed that porn was actually responsible for 85% of iBill's annual credit-card transactions, which once amounted to as much as \$720 million.

Having agreed last month to a settlement of \$5.3 million for the various class-action lawsuits that resulted from the company's understatement of iBill's dependence on porn, Intercept also announced a deal to relieve itself of the business and sell the division that includes iBill for a lowball \$37 million to a group that included management and outside investors (after dropping plans from October to take all of Intercept private). Then, on March 15, the company reversed course yet again and said it would sell iBill separately to yet another buyer, whom the company never disclosed.

"None of those names have been made public," said an Intercept spokeswoman. "I can't respond."

For good reason. It turns out the identity of what Intercept only characterizes as "another entity" has become an open secret among folks close to the deal, and not for reasons that will enhance Intercept's shaky reputation. In addition to iBill's former chief executive, Garrett Bender Garrett Bender , the other person leading the buyers is none other than Jason Galanis Jason Galanis , son of John Peter Galanis, the notorious white-collar crook who bilked investors of \$400 million

before he was thrown in prison, where he still resides. As *Forbes* reported in 2000 (see "[The Long Reach Of John Peter Galanis](#)"), the disgraced father has had heavy if not controlling influence on Jason's businesses, which have been involved in the spectacular blowup of a Colorado bank and millions in losses for commodity giant Cargill.

Unlike his father, Jason Galanis has never been convicted of a crime. He has, however, had at least one scrape with the law. While serving as chief executive in 2001 of something called EGX Funds Transfer (formerly known as Incubator Capital), a once-publicly traded financial processing outfit, Galanis and his brother and sometimes-business partner Derek were arrested as part of a big Drug Enforcement Agency bust of a San Diego ecstasy manufacturing and distribution ring. Although all the charges were dropped against Jason, Derek was convicted and sentenced to 11 years in jail.

Derek's attorney, Janice Deaton of San Diego, says she will soon file an appeal of Derek's conviction, citing "prosecutorial misconduct" and asking for a "huge reduction in sentence based on his actual role." She describes Derek as a "very minimal player," and adds, "he didn't participate in this for any financial gain, and didn't contribute any money." Deaton says both of the Galanis brothers knew one of the principals of the drug ring, Dennis Alba, from prior business dealings, which is how they got caught up in the bust.

But Deaton contends just the brothers' name alone was enough to arouse suspicion. "Their dad is what got Derek in trouble," she says. "There were other people more involved than Derek who got their cases dismissed. It's the Galanis name. It's really a shame." Although Deaton didn't represent Jason in the matter, she said she's spoken with him frequently, and says she's "impressed with him as a businessperson."

In an e-mail exchange, Jason Galanis acknowledges the heavy burden of his father's name in the DEA bust. "Unfortunately, I was again maligned by indirect inferences about my relatives, which are, admittedly colorful people. One cannot choose their relatives," he says. "This has haunted me for my entire career. My father left our family when I was 16, when he was indicted and arrested. He has been incarcerated almost my entire adult life...Since my brother's incident, I have wanted nothing further to do with my father or his poor life choices."

At the same time, Galanis also contends he is only acting as an intermediary for a "handsome fee" in the iBill deal, not as a principal, on behalf of a "Dr. Molina." Molina is apparently Luis Enrique Fernando Molina Luis Enrique Fernando Molina, a Galanis business associate and Mexican hotel developer whose family controlled Pepsi-Gemex, the largest independent Pepsi bottler outside the United States. But others familiar with the deal say Galanis is more deeply involved than he lets on.

"My role has been a central one in making the transaction come together," says Galanis. "It is possible that peripheral parties could form the wrong impression."

Galanis similarly described himself as a "part of the investment banking team" that took Robert Guccione's *Penthouse* magazine public in 2002, then helped Molina in a deal in November to put another \$107 million into *Penthouse* in a real estate/equity swap. But according to Securities and

Exchange Commission filings, Galanis was identified as recently as last fall as the only person associated with Penthouse Financial, a separate company from Guccione's teetering empire that controls *Penthouse's* racy website. Galanis now says it was more of a licensing deal, and that the contract has since been terminated.

Galanis' *Penthouse* experience provides a nice bit of synergy with iBill, perhaps, but iBill's role in the Internet economy--at least the part where people pay for stuff--can't be understated. The company acts as the critical aggregator and gatekeeper between thousands of websites, porn or otherwise, and the bank that ultimately processes the bulk of iBill's credit-card transactions and doesn't want the aggravation of dealing with all those pipsqueak businesses. The bank in this case happens to be First Financial Bank, a subsidiary of \$8.5 billion (2003 sales) blue chip financial processor First Data .

The fact that First Data would have to sign off on any deal that hands over a treasure trove of sensitive credit-card data to Galanis, or whomever he purports to represent, probably doesn't sit well with the conservative Greenwood Village, Colo., company, which also owns Western Union, TeleCheck and now Concord EFS. First Data is already said to also be looking to exit from the porn payments business. The company has been shopping around its more than \$1 billion porn and high-risk merchant portfolio, made up mostly of iBill and a handful of other big porn payment intermediaries like it. Considering the business only contributes \$10 million to First Data's \$1.4 billion in profits, the risk to First Data's hard-earned reputation seems hardly worth the hassle.

Like intercept, First Data is also keeping quiet about the possible deal. "First Data does not selectively comment on its business plans," said a First Data spokesperson in a statement. "It is not our practice to make public the details of our specific contractual arrangements or our business relationships with our clients."

But if you were clearing credit cards for the likes of hotlegsandfeet.com., enema-sex.com and my hotwife.com, you'd probably keep quiet about it too.

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