



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

MATTHEW P. DENN, Attorney
General of the State of Delaware,

Plaintiff,

v.

BACKPAGE.COM, LLC, WEBSITE
TECHNOLOGIES, LLC, POSTING
SOLUTIONS, LLC, and AMSTEL
RIVER HOLDINGS, LLC,

Defendants.

C.A. No. _____

VERIFIED COMPLAINT

Plaintiff Matthew P. Denn, Attorney General of the State of Delaware, for his complaint against Defendants Backpage.com, LLC, Website Technologies, LLC, Posting Solutions, LLC, and Amstel River Holdings, LLC, alleges, upon personal information as to his own acts and status, and upon information and belief as to all other matters, as follows:

Nature of the Action

1. This is an action for the cancellation of the certificates of formation of four Delaware limited liability companies that were deeply involved in the criminal activities that were part and parcel of the ownership and operation of the notorious sex trafficking website Backpage (<http://www.backpage.com>) ("Backpage").

2. Under Section 18-112 of Delaware's Limited Liability Company Act, 6 *Del. C.* § 18-101, *et seq.* ("LLC Act"), the Attorney General is authorized to request

that the Court of Chancery cancel the certificate of formation of a Delaware limited liability company when the powers, privileges, or existence of that limited liability company have been abused or misused.

3. The Attorney General seeks cancellation of Defendants' certificates of formation because each of the Defendants has pleaded guilty, and thus confessed, in federal and state courts to engaging in human trafficking, conspiracy to commit money laundering, and organized criminal activity (*i.e.*, racketeering), through their ownership, operation, and facilitation of the operations of Backpage.

4. Delaware law has never permitted or condoned the use of business entities formed under its laws for unlawful or nefarious purposes, and thus Defendants' guilty pleas are proof that Defendants, and their principals, have abused and misused not only Defendants' powers and privileges, but their very existences, in perhaps the most reprehensible manner possible. Having abandoned the responsibilities that come with status as Delaware limited liability companies, Defendants must be forever denied the rights and privileges that also come with that status, and their certificates of formation must therefore be canceled.

Parties

5. Plaintiff Matthew P. Denn ("Attorney General") is the Attorney General of the State of Delaware.

6. Defendant Backpage.com, LLC is a limited liability company organized under the laws of the State of Delaware, with its principal place of business, at least

through April 6, 2018, located at 2501 Oak Lawn Avenue, Dallas, Texas 75219. As of August 21, 2018, and the filing of this Complaint, Backpage.com, LLC does not have a registered agent in the State. Pursuant to Section 18-104(d) of the LLC Act, Backpage.com, LLC may be served with legal process by service upon the Delaware Secretary of State.

7. Defendant Website Technologies, LLC is a limited liability company organized under the laws of the State of Delaware, with its principal place of business, at least through April 6, 2018, located in Phoenix, Arizona. As of the filing of this Complaint, Website Technologies, LLC's registered agent for service of process in the State is Corporation Trust Company, Corporation Trust Center, 1209 North Orange Street, Wilmington, Delaware 19801.

8. Defendant Posting Solutions, LLC is a limited liability company organized under the laws of the State of Delaware, with its principal place of business, at least through April 6, 2018, located at 2501 Oak Lawn Avenue, Dallas, Texas 75219. As of the filing of this Complaint, Posting Solutions, LLC's registered agent for service of process in the State is Corporation Trust Company, Corporation Trust Center, 1209 North Orange Street, Wilmington, Delaware 19801.

9. Defendant Amstel River Holdings, LLC is a limited liability company organized under the laws of the State of Delaware, with its principal place of business, at least through April 6, 2018, located at 2501 Oak Lawn Avenue, Dallas, Texas 75219. As of the filing of this Complaint, Amstel River Holdings, LLC's registered

agent for service of process in the State is Corporation Trust Company, Corporation Trust Center, 1209 North Orange Street, Wilmington, Delaware 19801.

10. Defendants Backpage.com, LLC, Website Technologies, LLC, Posting Solutions, LLC, and Amstel River Holdings, LLC are collectively referred to herein as “Defendants.”

Factual Allegations

11. Backpage was created in 2004 by three individuals—Carl Ferrer, Michael Lacey, and James Larkin (collectively, the “Backpage Principals”)—who at the time were the owners of Village Voice Media Holdings, a newspaper chain whose publications were known to feature advertisements for unlawful prostitution services. The Backpage Principals created Backpage in response to the devastation caused to print media classified advertising by the rise of the internet—in particular, by the explosive growth and popularity of classified advertisements website Craigslist (<http://www.craigslist.org>).

12. Backpage.com, LLC owned and operated Backpage, which, as of April 6, 2018, was the second-largest internet-based classified advertising service in the world.

13. During its fourteen years of existence, Backpage.com, LLC derived the great majority of its revenue from fees charged in return for publishing advertisements for “adult” and “escort” services on Backpage. Upon information and belief, the publishing of these advertisements has earned Defendants, and through them the

Backpage Principals and other individuals, hundreds of millions of dollars in revenue over the course of Backpage's existence.

14. The great majority of those advertisements were, in fact, advertisements for prostitution services, which are not protected by the First Amendment to the United States Constitution or Article I, § 5 of the Delaware Constitution of 1897, and which are unlawful in 49 states (including Delaware) and in much of the State of Nevada. Defendants, through certain authorized employees, agents, and representatives, were aware that Backpage was being used to advertise unlawful prostitution services.

15. In fact, not only were Defendants' owners, employees, agents, and representatives aware of this fact, they conspired to cause Defendants to knowingly facilitate the prostitution crimes being committed by Backpage's customers. For example, Defendants utilized so-called "moderation" processes through which Backpage would remove terms and pictures that were particularly indicative of prostitution and then publish a revised version of the advertisement. Such editing did not change the essential nature of the unlawful services being offered, but were merely intended to create a veneer of deniability for Backpage. Importantly, these editing practices were only one component of an overall, company-wide culture and policy of concealing and refusing to officially acknowledge the true nature of the services being offered in Backpage's "escort" and "adult" advertisements—namely, sex trafficking, including trafficking of minors.

16. Over time, many banks, credit card companies, and other financial institutions refused to do business with Backpage due to the unlawful nature of the business being conducted on Backpage. In response, Defendants' owners, employees, agents, and representatives engaged in a variety of criminal money-laundering offenses in order to disguise the source and origin of Backpage's revenue, by fooling credit card companies into believing that Backpage-associated charges were being incurred on different websites, routing Backpage-related payments and proceeds through bank accounts held in the name of seemingly unconnected entities (including Defendants Website Technologies, LLC and Posting Solutions, LLC), and using cryptocurrency-processing companies for similar purposes.

17. As a result of this ongoing and pervasive criminal conduct, Backpage, and Defendants and their principals, owners, employees, agents, and representatives, have been targeted by state and federal investigatory and law enforcement efforts since at least 2011. For example, in August 2011, forty-seven state Attorneys General, including then-Delaware Attorney General Joseph R. Biden, III, sent a letter to Backpage.com, LLC's counsel in which they described Backpage as a "hub" of "human trafficking, especially the trafficking of minors." After noting that more than 50 cases had been filed over the previous three years involving individuals trafficking or attempting to traffic minors on Backpage, the state Attorneys General stated that Backpage's screening efforts were "ineffective" and requested documents from Backpage concerning its public statements that it screened and removed

advertisements linked to sex trafficking. (*See* Letter from the Nat’l Ass’n of Attorneys General to Samuel Fifer, Esq., Counsel for Backpage.com, LLC, dated Aug. 31, 2011, attached hereto as Exhibit A and incorporated by reference herein.) Backpage.com, LLC did not substantively respond to that request.

18. Also, in 2015, the Permanent Subcommittee on Investigations of the United States Senate’s Committee on Homeland Security and Governmental Affairs commenced an investigation of Backpage. In January 2017, the Subcommittee issued a thorough and detailed 50-page report,¹ accompanied by an 839-page appendix,² demonstrating that Backpage and its principals, owners, employees, agents, and representatives for years knowingly concealed evidence of criminality by systematically editing Backpage’s adult advertisements—despite their repeated public denials of such conduct—and that Backpage and its principals, owners, employees, agents, and representatives knew that Backpage facilitated unlawful activity, including child sex trafficking.

19. The investigatory and law enforcement efforts came to a head on April 6, 2018, when the United States Department of Justice (“USDOJ”) announced that it had filed a 93-count, 61-page indictment in the United States District Court for the District of Arizona, charging two of the Backpage Principals (Michael Lacey and James

¹ *See* <http://www.hsgac.senate.gov/download/backpagecoms-knowing-facilitation-of-online-sex-trafficking> (last checked November 19, 2018).

² *See* <http://www.hsgac.senate.gov/download/backpagecom-appendix> (last checked November 19, 2018).

Larkin) and other individuals heavily involved in Backpage's ownership and operations with:

- (a) one count of Conspiracy to Facilitate Prostitution (18 U.S.C. § 371);
- (b) fifty counts of violation of the Travel Act – Facilitating Prostitution (18 U.S.C. § 1952(a)(3)(A) and (b)(1)(i));
- (c) one count of Conspiracy to Commit Money Laundering (18 U.S.C. § 1956(h));
- (d) ten counts of Concealment Money Laundering (18 U.S.C. § 1956(a)(1)(B)(i));
- (e) six counts of International Promotional Money Laundering (18 U.S.C. § 1956(a)(2)(A)); and
- (f) twenty-five counts of Transactional Money Laundering (18 U.S.C. § 1957).

The USDOJ filed a superseding indictment on July 25, 2018, adding an additional six counts of Transactional Money Laundering (18 U.S.C. § 1957) and one new count of International Concealment Money Laundering (18 U.S.C. § 1956(a)(2)(B)(i)), against Backpage Principal Michael Lacey, and newly asserting Counts 1-51 against one of the existing original defendants (John Brunt). (*See* Exhibit B, attached hereto and incorporated by reference herein.)

20. Also on April 6, 2018, the USDOJ announced a plea agreement with Carl Ferrer, the third of the backpage Principals, who pleaded guilty to Conspiracy to commit one or more crimes of facilitating prostitution and concealing and promoting money laundering. Mr. Ferrer also stipulated and agreed to take all steps within his power to immediately shut down Backpage and to forfeit to the United States all corporate assets and other property owned or controlled by the Defendants. (*See* Exhibit C, attached hereto and incorporated by reference herein.)

21. The USDOJ also announced plea agreements with the Defendants, in which each Defendant pleaded guilty to one count of Conspiracy to Commit Money Laundering under 18 U.S.C. § 1956(h), and agreed to forfeit any assets or property traceable to, derived from, fungible with, or a substitute for property that constitutes proceeds of the offenses, or which was used to facilitate the commission of the offenses. (*See* Exhibits D-G, attached hereto and incorporated by reference herein.) In their federal plea agreements, Defendants admitted that the facts set forth in paragraphs 13-16 of this Complaint “are true and that if this matter were to proceed to trial the United States could prove [those] facts beyond reasonable doubt.”

22. In coordination with this federal court activity, on April 9, 2018, the Defendants also entered guilty pleas in the District Court for the 94th Judicial District in Nueces County, Texas. Specifically, each of the Defendants pleaded guilty to one count of Trafficking of Persons (Texas Penal Code § 20A.02) and one count of

Engaging in Organized Criminal Activity (Texas Penal Code § 71.02). In connection with these guilty pleas, the Defendants stipulated to the following facts:

Defendant Entities did, on or about January 1, 2015, through March 31, 2015, in Nueces County, Texas, knowingly receive a benefit from participating in a venture that involved the trafficking of [REDACTED], a child younger than 18 years of age, and by any means caused [REDACTED] to engage in or become the victim of conduct prohibited by Section 43.05—Compelling Prostitution.

Defendant Entities did, on or about September 1, 2015, through December 31, 2017, in Nueces County, Texas, with intent to establish, maintain, or participate in a combination or in the profits of a combination, the combination consisting of the Defendant Entities, Julia Dorst, Amnon Lipa, Omar Lopez-Castrillo and Vladamir Hanus, and other unnamed individuals, who collaborated in carrying on the following criminal activity:

Money Laundering, in that the Defendant Entities knowingly acquired, maintained an interest in, concealed, possessed, transferred or transported the proceeds of criminal activity; or conducted, supervised or facilitated a transaction involving the proceeds of criminal activity; or invested, expended and received the proceeds of criminal activity or funds that Defendant Entities believed are the proceeds of criminal activity, namely: United States currency or its equivalent, and said funds were acquired or derived directly or indirectly from criminal activity, namely conduct prohibited by Texas Penal Code Section 32.32 False Statement to Obtain Property or Credit or in the Provision of Certain Services, and all proceeds of the criminal activity were related to one scheme or continuing course of conduct and the aggregate value of the proceeds is \$300,000 or more.

Money Laundering, in that the Defendant Entities knowingly acquired, maintained an interest in, concealed, possessed, transferred or transported the proceeds of criminal activity; or conducted, supervised or facilitated a transaction involving the proceeds of criminal activity; or invested, expended and received the proceeds of criminal activity or funds that Defendant Entities believed are the proceeds of criminal activity, namely: United States currency or its equivalent, and said funds were acquired or derived directly or indirectly from criminal activity, namely conduct prohibited by Texas Penal Code Section 32.35 Credit Card Transaction Record Laundering, and all proceeds of the criminal

activity were related to one scheme or continuing course of conduct and the aggregate value of the proceeds is \$300,000 or more.

(See Exhibit H, attached hereto and incorporated by reference herein.)

23. Finally, also as part of these coordinated federal-state efforts, on or about April 12, 2018, Backpage Principal Carl Ferrer pleaded guilty in California state court to one count of Conspiracy and three counts of Money Laundering in connection with his ownership and operation of Defendants and Backpage, and agreed to similar forfeiture and assistance provisions as with his federal plea agreement.

Causes of Action

Count I—Cancellation of Certificate of Formation of Backpage.com, LLC

24. Paragraphs 1 through 23 of this Complaint are repeated and realleged as if fully set forth herein.

25. Section 18-112 of the LLC Act authorizes the Court of Chancery, upon motion of the Attorney General, to cancel the certificate of formation of a Delaware limited liability company when the powers, privileges, or existence of that limited liability company have been abused or misused.

26. Through its guilty pleas in federal and Texas state courts admitting to reprehensible criminal conduct, Backpage.com, LLC has admitted to facts conclusively demonstrating that it has engaged in acts of fraud, immorality, or violations of statutory law in connection with its operations.

27. Backpage.com, LLC has abused the powers, privileges, and existence granted to it as a Delaware limited liability company, as a result of which it should be denied the rights and privileges that also come with status as a Delaware limited liability company, and its certificate of formation should therefore be canceled.

28. The Attorney General has no adequate remedy at law.

**Count II—Cancellation of Certificate of
Formation of Website Technologies, LLC**

29. Paragraphs 1 through 23 of this Complaint are repeated and realleged as if fully set forth herein.

30. Section 18-112 of the LLC Act authorizes the Court of Chancery, upon motion of the Attorney General, to cancel the certificate of formation of a Delaware limited liability company when the powers, privileges, or existence of that limited liability company have been abused or misused.

31. Through its guilty pleas in federal and Texas state courts admitting to reprehensible criminal conduct, Website Technologies, LLC has admitted to facts conclusively demonstrating that it has engaged in acts of fraud, immorality, or violations of statutory law in connection with its operations.

32. Website Technologies, LLC has abused the powers, privileges, and existence granted to it as a Delaware limited liability company, as a result of which it should be denied the rights and privileges that also come with status as a Delaware limited liability company, and its certificate of formation should therefore be canceled.

33. The Attorney General has no adequate remedy at law.

**Count III—Cancellation of Certificate of
Formation of Posting Solutions, LLC**

34. Paragraphs 1 through 23 of this Complaint are repeated and realleged as if fully set forth herein.

35. Section 18-112 of the LLC Act authorizes the Court of Chancery, upon motion of the Attorney General, to cancel the certificate of formation of a Delaware limited liability company when the powers, privileges, or existence of that limited liability company have been abused or misused.

36. Through its guilty pleas in federal and Texas state courts admitting to reprehensible criminal conduct, Posting Solutions, LLC has admitted to facts conclusively demonstrating that it has engaged in acts of fraud, immorality, or violations of statutory law in connection with its operations.

37. Posting Solutions, LLC has abused the powers, privileges, and existence granted to it as a Delaware limited liability company, as a result of which it should be denied the rights and privileges that also come with status as a Delaware limited liability company, and its certificate of formation should therefore be canceled.

38. The Attorney General has no adequate remedy at law.

**Count IV:
Cancellation of Certificate of Formation
of Amstel River Holdings, LLC**

39. Paragraphs 1 through 23 of this Complaint are repeated and realleged as if fully set forth herein.

40. Section 18-112 of the LLC Act authorizes the Court of Chancery, upon motion of the Attorney General, to cancel the certificate of formation of a Delaware limited liability company when the powers, privileges, or existence of that limited liability company have been abused or misused.

41. Through its guilty pleas in federal and Texas state courts admitting to reprehensible criminal conduct, Amstel River Holdings, LLC has admitted to facts conclusively demonstrating that it has engaged in acts of fraud, immorality, or violations of statutory law in connection with its operations.

42. Amstel River Holdings, LLC has abused the powers, privileges, and existence granted to it as a Delaware limited liability company, as a result of which it should be denied the rights and privileges that also come with status as a Delaware limited liability company, and its certificate of formation should therefore be canceled.

43. The Attorney General has no adequate remedy at law.

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WHEREFORE, the Attorney General prays for judgment and requests that the Court enter an Order:

A. Directing the Delaware Division of Corporations to cancel the certificate of formation of Backpage.com, LLC;

B. Directing the Delaware Division of Corporations to cancel the certificate of formation of Website Technologies, LLC;

C. Directing the Delaware Division of Corporations to cancel the certificate of formation of Posting Solutions, LLC;

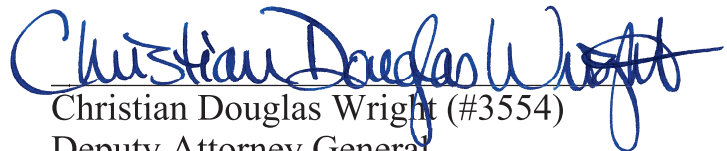
D. Directing the Delaware Division of Corporations to cancel the certificate of formation of Amstel River Holdings, LLC; and

E. Granting such other and further relief as the Court deems just and appropriate.

STATE OF DELAWARE
DEPARTMENT OF JUSTICE

STATE OF DELAWARE
DEPARTMENT OF JUSTICE
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Dated: November 19, 2018



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