October 10, 2001

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Russian Computer Hacker Convicted by Jury

Francis J. Diskin, United States Attorney for the Western District of Washington, and Charles E. Mandigo, Special Agent in Charge, Seattle Division, Federal Bureau of Investigation, announced that a jury returned guilty verdicts yesterday against VASILIY GORSHKOV, age 26, of Chelyabinsk, Russia, on 20 counts of conspiracy, various computer crimes, and fraud committed against Speakeasy Network of Seattle, Washington; Nara Bank of Los Angeles, California; Central National Bank of Waco, Texas; and the online credit card payment company PayPal of Palo Alto, California. Sentencing for GORSHKOV is scheduled before Chief United States District Judge John C. Coughenour in Seattle at 9:00 a.m. on January 4, 2002. GORSHKOV faces a maximum sentence of five years in prison on each count, for a total statutory maximum of 100 years in prison, as well as a maximum fine of $250,000 on each count.

According to evidence presented at trial and other court records:

GORSHKOV was one of two men from Chelyabinsk, Russia, who were persuaded to travel to the United States as part of an FBI undercover operation. The operation arose out of a nationwide FBI investigation into Russian computer intrusions that were directed at Internet Service Providers, e-commerce sites, and online banks in the United States. The hackers used their unauthorized access to the victims' computers to steal credit card information and other personal financial information, and then often tried to extort money from the victims with threats to expose the sensitive data to the public or damage the victims' computers. The hackers also defrauded PayPal through a scheme in which stolen credit cards were used to generate cash and to pay for computer parts purchased from vendors in the United States. The FBI's undercover operation was established to entice persons responsible for these crimes to come to U.S. territory.

As part of the operation, the FBI created a start-up computer security company named "Invita" in Seattle, Washington. Posing as Invita personnel, the FBI communicated with GORSHKOV and the other man, Alexey Ivanov, by e-mail and telephone during the summer and fall of 2000. The men agreed to a face-to-face meeting in Seattle. As a prelude to their trip to the United States, the FBI arranged a computer network for the two men to hack into and demonstrate their hacking skills. The men successfully broke into the test network.

GORSHKOV and Ivanov arrived in Seattle, Washington, on November 10, 2000, and a meeting was held at the office of Invita. Unbeknownst to the Russian men, the participants in the meeting were undercover FBI agents and the meeting was recorded on audio and video tape. During the meeting, GORSHKOV discussed their hacking prowess and took responsibility for various hacking incidents and activities. GORSHKOV shrugged off any concern about the FBI, explaining that the FBI could not get them in Russia. When asked about their access to credit cards, GORSHKOV declined to talk about it while they were in the United States and added that "this kind of question is better discussed in Russia."

At the conclusion of the Invita undercover meeting, the two men were arrested. Ivanov was transported to the District of Connecticut to face charges for a computer intrusion at the Online Information Bureau of Vernon, Connecticut. GORSHKOV and Ivanov were charged in the Western District of Washington with conspiracy and 19 additional crimes involving Speakeasy, Nara Bank, Central National Bank - Waco, and PayPal.

A few days after the two men were arrested, the FBI obtained access via the Internet to two of the men's computers in Russia. The FBI copied voluminous data from the accounts of GORSHKOV and Ivanov and then obtained a search warrant from a United States Magistrate Judge. GORSHKOV's pretrial challenge to the FBI's copying and subsequent search of the Russian data was denied by Chief Judge Coughenour in a written order dated May 23, 2001. The data copied from the Russian computers provided a wealth of evidence of the men's computer hacking and fraud. They had large databases of credit card information that was stolen from Internet Service Providers like Lightrealm of Kirkland, Washington. More than 56,000 credit cards were found on the two Russian computers. The Russian computers also contained stolen bank account and other personal financial information of customers of online banking at Nara Bank and Central National Bank - Waco.

The data from the Russian computers revealed that the conspirators had gained unauthorized control over numerous computers → including computers of a school district in St. Clair County, Michigan → and then used those compromised computers to commit a massive fraud involving PayPal and the online auction company e-Bay. The fraud scheme consisted of using computer programs to establish thousands of anonymous e-mail accounts at e-mail web sites like Hotmail, Yahoo!, and MyOwnEmail.

GORSHKOV's programs then created associated accounts at PayPal with random identities and stolen credit cards. Additional computer programs allowed the conspirators to control and manipulate e-Bay auctions so that they could act as both seller and winning bidder in the same auction and then effectively pay themselves with stolen credit cards.

Alexey Ivanov, age 20, also of Chelyabinsk, Russia, is still awaiting trial in the District of Connecticut, and he remains under Indictment in the Western District of Washington.

United States Attorney Francis J. Diskin stated: "The success of this prosecution shows that the Department of Justice and the FBI will expend whatever resources are necessary to protect the integrity of the Internet and legitimate businesses from the devastating damage that can be done by illegal hackers." U.S. Attorney Diskin also particularly complimented the investigative work

of the FBI, particularly Special Agents Marty Prewett and Michael Schuler, the case agents, for the tireless work required to bring GORSHKOV to justice.

Assistant United States Attorneys Stephen C. Schroeder and Floyd G. Short prosecuted the case.

For further information please contact Assistant U.S. Attorneys Stephen C. Schroeder at (206) 553-4098 or Floyd G. Short at (206) 553-2465, or Executive Assistant United States Attorney Lawrence Lincoln at (206)553-4127.

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