

PRESENTMENT

INTRODUCTION

We, the members of the Thirty-Fourth Statewide Investigating Grand Jury, have received and reviewed evidence pertaining to allegations of violations of the penal laws in and around Allegheny County, Pennsylvania. This investigation was conducted pursuant to Notice of Submission of Investigation Number 46 and, by this Presentment, this Grand Jury does hereby make the following findings of fact and recommendations of charges:

This investigation has three different types of illegal gambling intertwined with each other and involving some of the same individuals. The different types of gambling are illegal gambling machines (often referred to as video poker or video gambling machines), lotteries and bookmaking. Illegal gambling machines are computer generated single player games such as poker or slots. Lotteries are based on the daily number drawings of three or four digit numbers. The illegal lotteries, often referred to as the numbers, continue to exist because they often pay more for a winning number than do the legal State lotteries. Bookmaking is the taking of wagers on sporting events such as football or basketball games. The bookmakers will take bets on games based on the "line", giving points to or taking points from a particular team to even the odds for that team to win a particular contest. The investigation was initially concerned with an illegal gambling operation in a business called the Coffee Pot located in McKeesport. As the investigation moved forward it came to be believed that the business was controlled by Ronald Melocchi, AKA Porky. The telephones servicing the business were in Melocchi's name. Ronald Melocchi was known to law enforcement as a vendor of illegal vending machines. What was unknown was the size of his operation. As the investigation progressed the scope of the video poker machine portion of the investigation spread to include approximately seventy different locations while the lottery portion diverged away from the machines and Melocchi. The bookmaking operation was smaller and much less developed than the machine operation. The machine portion also grew to include a number of individuals who were found to be involved in the day-to-day operation of the machine business.

The investigation included electronic surveillance as a wiretap was done on the telephone used primarily by Ronald Melocchi. The wiretap started in October and ran into December, 2012. It was soon apparent that Melocchi used the phone to run and promote his business interests. These interests included video poker machines and bookmaking and the promotion of these operations. Wiretaps were also used on the lottery portion of the investigation.

1. Illegal Gambling Machines

On December 11, 2012 agents of the Office of Attorney General and troopers of the Pennsylvania State Police seized 335 video gambling machines from locations primarily in the Mon

Valley area of Western Pennsylvania. The machines were seized from approximately seventy different locations. The majority of the locations from which these machines were seized were bars but there were also bowling alleys, coffee shops, restaurants, private clubs and convenience stores. A few locations which were not searched pursuant to a search warrant actually moved machines out onto the sidewalk and called the police to come take the machines. Some of the locations had only one or two machines but others had as many as eleven. The businesses or locations where there were gambling devices are referred to as “stops” by Melocchi and others in this business both on the intercepted conversations and during testimony. These machines were all owned and operated by Back Alley Vending, Glassport, Allegheny County, PA.

Eleven owners and/or managers of businesses from which machines had been seized testified before the Grand Jury. Their testimony was similar as to what had occurred regarding the placement of the machines in their businesses. As one bar owner testified, he had been approached by an individual he knew as Porky, identified by the witness and others as Ronald Melocchi, who had offered to install the machines in the witness’ business, to pay the fees for licensing by the municipality and to take care of any maintenance in exchange for a 60/40 split of the profits. The bar owner got the 60%. Other bars only got a 50/50 split. The profits were the money taken in by the machine minus the winnings paid out. Some of the businesses also got cash up front for allowing Back Alley Vending to put machines in the business. One witness testified that she was offered an upfront payment of \$5,000 if she would allow Melocchi to place his machines within her business. Another bar owner received \$2,000 or \$3,000 from Melocchi (they could not remember the exact amount) when they agreed to allow Back Alley Vending machines to be placed in their business. Many of the businesses had illegal gambling machines in their businesses for decades. All of the owners/managers testified that the machines were used for illegal gambling. As one Back Alley Vending employee testified, while the machines were marked “For Amusement Only”, he was not aware of anyone ever playing them just for fun.

The counties from which machines were seized pursuant to the search warrants were Washington, Allegheny, Westmoreland and Fayette. Each of the municipalities where machines were had ordinances which required that each machine be licensed. The licensing fees varied by municipality but, as examples, West Mifflin and Glassport Boroughs’ was \$500 per machine while the City of McKeesport charged on a sliding scale based on the number of machines. If a business had one or two machines the fee was \$240 per year, three or four machines cost \$1500 and any machines over four were assessed an additional fee of \$250 per machine. Some of the municipalities examined charged differing fees based on the type of machine. Canonsburg Borough, for example, assessed an amusement license of \$500 for a mechanical casino, \$150 for each mechanical arcade and \$75 for a jukebox. These licensing fees were for one year periods and had to be renewed each year.

The machines which Back Alley Vending put into these businesses were generally video poker or video slot machines. Canonsburg would define these as mechanical casinos. The video machines of Back Alley Vending were maintained primarily by Frank Reese. The machines were primarily Cherry Masters or some derivative of poker machines. Cherry Masters are a slot type of game where a player wins by getting a predetermined number of the same symbol line up on the screen. The machines Back Alley Vending utilized were identical to the same types of machines in the casinos except for the “knock-off”

feature which was usually installed by the mechanics working for Back Alley Vending. The “knock-off” feature resets the number of credits on the machine to zero. The credits were sometimes worth \$.25 each, so a \$20 initial payment would register as 80 credits. The majority of the machines gave one credit for each dollar. Differing numbers of credits could be played per hand or spin, depending on the machine. When the player was done playing the cashier would pay out based on the credits shown and then would use the “knock-off” feature to erase the credits paid. The cashiers who would do this were often the bartenders at the bars and clubs. Some of the “knock-offs” were remote control devices but the majority of them were two exposed screw heads on the top of the machine that when connected by a quarter or a paper clip erased the credits. The machines also had internal metering systems which kept count of the total credits purchased and the number of credits deleted through use of the knock-off function. According to the testimony of the law enforcement officers the presence of the meters and the knock-offs makes these machines gambling devices per se as their sole purpose is for illegal gambling.

Some of the machines placed by Back Alley Vending did not have a manual knock-off function because the machine dispensed tickets rather than merely adding credits. When the tickets were dispensed the machine automatically deleted any credits.

Once every week or two a “collector” would go to each establishment where Back Alley Vending had machines. Back Alley Vending had a number of individuals who acted as collectors. They included Ronald Melocchi, Kirk Mollica, Ronald Prest, Eugene Kowalski, Frank Reese, Ronald Melocchi, Jr. and Robert Bogesdorfer AKA “Bo” Wagner. Each of these individuals had their own route on which they would do collections. The “collector” would check the meters for the machines, if the business owner had not already done so. The meters were displayed differently by the various types of machines but they record the total number of credits purchased and the number that had been “knocked off”. The “collector” would use the meter information to determine how much had been paid out in winnings and the profit from the machines and then figure out the split. In some of the businesses the manager or owner would have already emptied the machines and figured out the split. In these businesses the collector would merely confirm the totals and the split. Many of the businesses would keep the machine money separate from the other cash and the splits would be taken from that stash. Other businesses would just take Back Alley Vending’s share directly from the cash register. Some of the machines dispensed tickets based on the number of credits accrued on the machine. These tickets could be redeemed for gift cards, other items or cash. The number of tickets dispensed was the record of the winnings on the machine. These machines were programmed to allow the dispensing of tickets greater in value than the amount of money deposited into the machine, distinguishing these machines from the legal machines found in some restaurants and bars.

In addition to collectors Back Alley Vending would also pay people for aiding or assisting in the procuring of new “stops”, locations where machines could be placed. James Cerqua was told by Ronald Melocchi that he would receive 25% of the vendor’s profits for securing a new “stop”. Cerqua assisted Back Alley Vending in securing two bowling alleys as locations for machines.

No records were found at any of the 70 establishments which were searched for gambling machines as to how much money was made from the machines for any time period longer than one week. An employee of Back Alley Vending testified that receipts were kept for the income from legal machines (such as pool tables or jukeboxes) but not for the gambling machines. The business owners who testified estimated their income from the gambling machines as anywhere from \$75 to \$1,000 per week. Many of the business owners also testified that the income was highest at the beginning of the month and lessened as the end of the month approached. Copies of Mr. Melocchi 's Federal tax returns showed gross receipts for Back Alley Vending for 2010 as \$355,819, 2011 as \$317,805 and 2012 as \$304,780. Some of this income was from legal machines; pool tables, juke boxes, megatouch machines, though Melocchi said in an intercepted telephone call that they (referring to Back Alley Vending) couldn't make it financially with just the legitimate machines. One Back Alley employee estimated that 70% of the revenue of Back Alley Vending was generated by the illegal gambling machines. The accountant who prepared Mr. Melocchi's tax returns testified that the income shown on those returns was based on deposits into the bank account plus 20 to 25% additional. The accountant testified that these additional figures were supplied by Mr. Melocchi and were not accompanied or supported by any documentation. The accountant also testified that he never received any breakdown of the income by location or type of machine. He did testify that he knew that Melocchi used machines for gambling purposes.

A witness who appeared and testified stated that he did collections and that he kept the envelopes that some stops would give the collector. On the envelope was a date, the name of the business/club and the amount of cash that was Back Alley's split. These envelopes were kept on the witness' desk. These envelopes only included spots where the witness did the collecting.

The Viking Lounge is located in McKeesport. It is owned and managed by Dan Carr. On November 1, 2012 troopers of the Pennsylvania State Police executed a search warrant on the Viking and seized 8 video machines (five Cherry Masters, two Draw 80 Pokers and one Cherry Jubilee). Two of the machines would not turn on when law enforcement attempted to examine them but the remaining six were examined and all six were equipped with internal meters and also knock-offs. Conversations between Dan Carr and Ronald Melocchi were intercepted on the wiretap regarding the seized machines and replacing them with new machines. Within one week of the machines being removed by law enforcement, workers from Back Alley Vending were observed removing machines from other businesses to replace the ones law enforcement confiscated from the Viking. On December 11, 2012 the Viking was raided by law enforcement again. Seized were eight video machines equipped with meters and knock-offs. Dan Carr was frequently intercepted speaking with Ronald Melocchi about the plans for acquiring new stops, determining who may have been providing information to the Liquor Control Board which resulted in the seizure of illegal machines and other aspects of Melocchi's business.

Another business from which video gambling machines were seized was the Twin Oaks Lounge in White Oaks area of Allegheny County. Seized from this establishment were five video machines equipped as gambling devices with knockoffs and internal meters. Twin Oaks was owned and operated by Mark Novakovich.

The Glassport Diner is across the street from the M & M Coffee shop in Glassport. The Diner is operated by Catherine Gouker. A number of conversations between Melocchi and Ms. Gouker were intercepted regarding the split of the money from the video machines. Ms. Gouker testified that there were four or five video machines in a side room of the diner and that they were used for gambling. During intercepted conversations between Gouker and Melocchi discussed that the total profit from the machines was \$1561. The machines at this location dispensed tickets which were redeemed for cash by the Diner's employees. On December 11, 2012, law enforcement seized five video machines from the Glassport Diner. These machines were examined and all were determined to be illegal gambling devices.

The Coffee Pot was a business located in McKeesport. This location was directly controlled by Ronald Melocchi. In 2011 Tim Minkus was hired by Melocchi to run the business. A second employee, Linda Pavlovic was hired by Melocchi during June, 2012 to help run the Coffee Pot. The Coffee Pot had seven machines in the back which were used for gambling. These machines all had "knock-offs" which Melocchi showed Minkus how to use. Ronald Prest would come weekly to read the meters and to collect the total winnings. \$1500 was kept on hand for payouts to people who won on the machines. Minkus estimated that the machines generated between \$5,000 and \$7,000 in profit per week. Tim Minkus was fired during August, 2012 and the Coffee Pot was then run by Mark Holtzman. The machines seized from the Coffee Pot on December 11, 2012 pursuant to the search warrant were examined by law enforcement and found to be illegal per se.

2. Lotteries

The Coffee Pot also was used as part of the illegal lotteries. Tim Minkus testified that when he was hired by Melocchi, during early 2011, he was told by Melocchi to take lottery wagers. An undercover trooper of the Pennsylvania State Police went into the Coffee Pot during March 2011, and met Tim Minkus for the first time. The trooper observed six to eight video poker type machines in the back. Over the course of the investigation the trooper observed numerous payoffs by Minkus to individuals who had been playing the machines. Minkus also offered to take any numbers bets that the trooper might care to make. The trooper inquired whether the Coffee Pot had a state lottery machine, to which Minkus replied that he paid better than the state did. Minkus also would take lottery wagers over the telephone. The trooper placed lottery bets with Minkus both in person and over the telephone until August, 2012. Once Holtzman took over running the Coffee Pot lottery wagers could not be placed there. Holtzman referred the trooper to the M & M Coffee Shop in Glassport to place illegal lottery wagers. The owner of M & M Coffee Shop, Kirk Mollica, testified that lottery wagers were placed with the employees of the Coffee Shop. These wagers were faxed daily to Terence McNelis, who Mollica knew as "Frog".

As the trooper started to visit the Coffee Pot, Minkus mentioned on a few occasions that the lottery wagers were being faxed out. A check with the telephone companies disclosed that there were two telephone landlines terminating at the Coffee Pot. Both of these lines were subscribed to in the name Ronald Melocchi. A subpoena to the telephone company for their records showed that one of the landlines was contacting a cellular modem device usually once per day, six days per week for a duration of time which suggested that these contacts were faxes. The modem was subscribed to in the name

ATECK Communications, with a contact name of Sal Tommarello. This modem device, when connected to a fax machine, converted the fax machine to a mobile device. Location information, obtained by Court Order, was unable to pinpoint the exact location of the device but did indicate that the device was located in the area of McAnulty Road in Pittsburgh. The investigators knew that Terence McNelis, known as "Frog", lived in this area on McAnulty Road.

Telephone company records showed that this first ATECK device was receiving faxes six days per week from a total six locations and was sending out one fax per day, six days per week to another ATECK modem also subscribed to in the name ATECK Communications, contact Sal Tommarello. This second ATECK device was also found to be receiving faxes six days per week from four other fax machines. The records obtained from the telephone company showed only incoming faxes to this second ATECK device, no outgoing calls or faxes.

Nonconsensual interceptions (commonly referred to as wiretaps) were authorized by the Court for the first ATECK telephone and then for the second ATECK device. The tap on the first ATECK device ran from October 10 to October 24, 2012. The second ATECK device was wiretapped from November 2 to November 15, 2012. Intercepted pursuant to the Court's Orders were faxes into both ATECK devices. The faxes consisted of pages of lottery bets on the Pennsylvania, Ohio and West Virginia lottery daily number and four number drawings. The amounts of the wagers shown on the faxes were often for \$.50 (fifty cents) or less. Each fax would have a total of the shown wagers on the bottom of the page. These totals were often in the thousands of dollars.

The second ATECK device was also tracked by location. It was shown to be operating on Goe Avenue in the City of Pittsburgh. The residence where the ATECK device was located was that of Carmela McCarthy. A search warrant was executed on Ms. McCarthy's residence on December 11, 2012. Found within her residence were three modem type devices, all subscribed to in the name ATECK Communications, contact Sal Tommarello. Ms. McCarthy testified that she did not know who was sending the faxes and that she held the faxes for approximately one week in case there was any disagreement or problems with anyone claiming a winning wager. After approximately one week the faxes were shredded. Ms. McCarthy gave the totals from the faxes to Rodney Ianelli. Mr. Ianelli paid her \$300 per week to do this and she had been doing this for "... no more than three years." Ms. McCarthy had a prior conviction for lotteries in 1974.

Rodney Ianelli was also named by Sal Tommarello as the person who paid for the ATECK devices. Mr. Tommarello stated that he was the subscriber for the devices and that the carrier sent the bills for them to him. Mr. Tommarello was paid by Rodney Ianelli to keep this account and for the use of the modem type devices.

On two different occasions the undercover trooper entered the Coffee Pot when Tim Minkus was absent and placed lottery wagers with a white male who was present. The male wrote down the numbers and took the money for the bets. The trooper later saw this same white male in a police uniform, inside of the Coffee Pot. The trooper identified this individual who accepted lottery bets on two occasions as McKeesport Police Lieutenant Arthur Pero.

3. Bookmaking

The undercover trooper who was going in to The Coffee Pot also spoke with Tim Minkus about placing sports bets. Minkus referred the trooper to an individual Minkus referred to as "Frog" for the sports betting. Minkus also provided the trooper with a telephone number for "Frog". The first sports wager placed by the trooper with "Frog" was on the Super Bowl in 2012. The trooper continued to call in bets on sports to "Frog" through the NCAA college basketball tournament that year. "Frog" told the trooper that he didn't take baseball or hockey bets and that he was shutting down the sports betting until football season started. In September, 2012, the trooper resumed placing sports bets with "Frog" on football games. The trooper would pay for his losing bets at the Coffee Pot and would also pick up envelopes with cash there when he won. All losing wagers also required the paying of an additional ten percent, often referred to as the vigorish or vig. A losing bet of \$100 required a payment of \$110. The trooper never actually met "Frog". Tim Minkus testified that "Frog", identified as Terence McNelis, would drop off envelopes for the winning sports bets at the Coffee Pot and that "Frog" would also collect the lotteries money approximately once every two weeks.

During the summer of 2012 the Office of Attorney General was contacted by an individual who had information regarding illegal gambling in the McKeesport area. This individual explained that he been in business with Ronald Melocchi, who the individual referred to as Porky, taking illegal sports bets previously. As explained by this individual, Porky would refer bettors to him, he would give out the line information, take the bets and keep track of each bettors bottom line. The line information was the point spread on particular sports contests, how many points were being either given to or subtracted from each team. This was done to even the contest for betting purposes. The bottom line is how much each bettor either owes or is owed. Most bettors had a figure at which a settle-up would be done; if the bettor either owed or was owed less than a thousand dollars that total would just be carried over until the next week. Only after over a thousand dollars was owed by either party would there be a meeting so that the debt would be paid. Melocchi handled the money and collected or paid the bettors. The profits were split evenly between Melocchi and the individual.

The individual began cooperating with the Office of Attorney General and the State Police and pursuant to law enforcement's request contacted Melocchi and they agreed to resume the sports bookmaking operation in August, 2012. Many bettors were referred by Melocchi to the cooperating individual and the profits were split evenly between Melocchi and the cooperating individual. The cooperating individual's split, in excess of \$23,000, was turned over to the state.

One of the bettors referred by Melocchi was James Cerqua. The cooperating individual noticed that Cerqua's sports bets had a pattern that indicated that he was placing bets for others. Mr. Cerqua testified that he was placing wagers with the cooperating individual for another bookmaker. Mr. Cerqua also introduced the cooperating individual to another bookmaker by the name of Jeff Risha. Risha was a bookmaker who agreed to take sports wagers from the cooperating individual. A number of sports

wagers were placed with Mr. Risha by the cooperating individual. An undercover trooper visited Mr. Risha at his home to both pay for losing bets and also to collect for winning ones.

Recommendation of Charges

Based on the evidence we have obtained and considered, which established a prima facie case, we, the members of the Thirty-Fourth Statewide Investigating Grand Jury recommend that the Attorney General, or her designee, institute criminal proceedings against the following individuals and charge them with the following offenses:

-add phone counts-

1. Ronald Melocchi
 - a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513
 - e. Lotteries 18 Pa.C.S. §5512
 - f. Pool Selling and Bookmaking 18 Pa.C.S. §5514
 - g. Criminal Use of Communication Facility 18 Pa.C.S. §7512

2. Ronald Prest
 - a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513
 - e. Criminal Use of Communication Facility 18 Pa.C.S. §7512

3. Eugene Kowalski
 - a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513

4. Kirk Mollica
 - a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513
 - e. Lotteries 18 Pa.C.S. §5512

5. Robert Bogesdorfer AKA Bo Wagner
 - a. Corrupt Organization 18 Pa.C.S. §911

- b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513
6. Frank Reese
- a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513
7. Ronald Melocchi, Jr.
- a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513
8. Tim Minkus
- a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513
 - e. Lotteries 18 Pa.C.S. §5512
9. Terence McNelis
- a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Lotteries 18 Pa.C.S. §5512
 - e. Pool Selling and Bookmaking 18 Pa.C.S. §5514
10. Rodney Ianelli
- a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Lotteries 18 Pa.C.S. §5512
11. James Cerqua
- a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513
 - e. Pool Selling and Bookmaking 18 Pa.C.S. §5514

12. Mark Holtzman
 - a. Corrupt Organization 18 Pa.C.S. §911
 - b. Criminal Conspiracy 18 Pa.C.S. §903
 - c. Dealing in Proceeds of Unlawful Activities 18 Pa.C.S. §5111
 - d. Gambling Devices 18 Pa.C.S. §5513

13. Jeffrey Risha
 - a. Pool Selling and Bookmaking 18 Pa.C.S. §5514

14. Mark Novakovich
 - a. Gambling Devices 18 Pa.C.S. §5513

15. Dan Carr
 - a. Corrupt Organization 18 Pa.C.S. §911
 - b. Gambling Devices 18 Pa.C.S. §5513

16. Arthur Pero
 - a. Lotteries

17. Catherine Gouker
 - a. Gambling Devices 18 Pa.C.S. §5513