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Strip Club Partners, Now Ruined, Blame Greed and the Mob

By SELWYN RAAB AUG. 30, 1998

As the 90's began, Michael D. Blutrigh and Lyle K. Pfeffer, two men from sedate, middle-class backgrounds, were riding high. Mr. Blutrigh, a founding partner in a politically connected Park Avenue law firm, and Mr. Pfeffer, a self-styled venture capitalist, were each taking in more than \$500,000 a year.

But they wanted more. Greed, they now admit, inspired them to become prominent players in two major conspiracies: siphoning millions from a Florida-based insurance company and allowing the Gambino organized-crime family to become their secret partners in Scores, a topless club on the Upper East Side of Manhattan.

Although the money rolled in at Scores, they say that for six years they were consumed by fear about their Mafia ties. Nevertheless, they accepted deals with mobsters who opened discussions by slamming guns on the table, who threatened to blow up Scores if the payoffs stopped and who mockingly promised to eliminate any "rats" who exposed them. "I knew what I was doing were crimes," Mr. Blutrigh said in a recent interview in Manhattan about his alliance with the Gambinos, one of the

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Asked why he had defrauded the insurance company and been partners with the mob, Mr. Pfeffer said, "I was stupid and greedy and we were on the fast track to success."

In 1996, both men switched sides, but only after Federal and state authorities implicated them in the insurance fraud and the Scores case. Seeking reduced prison sentences, they worked undercover for a year, taping more than 100 conversations that prosecutors say contributed to indictments in January of several members of the Gambino family on charges of extorting more than \$1 million from Scores. The defendants include John A. Gotti, 34 -- the son of John J. Gotti, 58, the family's imprisoned boss -- and other reputed soldiers and associates.

The younger Mr. Gotti, known as Junior, was helping run the crime family at the time of the indictments, Federal and state prosecutors say.

Because of what prosecutors say are Mr. Blutrigh and Mr. Pfeffer's extensive personal contacts with Gambino family members, the two men are expected to be pivotal witnesses against the younger Mr. Gotti and five co-defendants at a trial scheduled for early next year in Federal District Court in White Plains.

"This is the first significant organized-crime case in which two people who were not 'made' members -- soldiers -- or associates of a crime family obtained such a volume of graphic evidence working undercover," said Myles H. Malman, a former Federal prosecutor in Florida who is Mr. Pfeffer's lawyer.

But lawyers for the reputed mobsters assert that the men's white-collar crimes will destroy their value as witnesses.

"The Government made sweetheart contracts with these two reprobates," said Bruce Cutler, who is representing the younger Mr. Gotti, and who is known for his combative cross-examinations. "Their life styles and misdeeds will come back to haunt them when they testify."

Another defense lawyer, Jay Goldberg, dismissed Mr. Blutrigh's and Mr. Pfeffer's expected testimony as worthless. "These are typical swindlers," he said. "The sky is the limit in terms of what they will say to avoid prison."

Mr. Blutrigh and Mr. Pfeffer, who are in the Federal witness protection program, gave a joint interview in which they told of their crimes and their undercover mission against the Gambino family. They asked Mr. Malman to arrange the interview with The New York Times, on the condition that he be present.

The men said they agreed to talk to explain to relatives and friends whom they can no longer see why they had dealt with mobsters, and to express their willingness to accept punishment.

The United States Attorney for the Southern District of New York, Mary Jo White, declined to discuss the men's cases. But investigators and prosecutors described them as essential witnesses.

In November, the F.B.I. ended the undercover investigation and whisked the two men away from the New York City area. They were given new identities. Scores remains open under new management.

Both are awaiting sentencing after pleading guilty in Florida to fraud and in New York to making illegal payments to the Gambino family. They each face up to 20 years in prison, but their cooperation is expected to reduce their terms.

From Successful Lawyer To Conspirator in Fraud

Mr. Blutrigh, 49, a stout man with a cherubic smile, grew up in Sheepshead Bay, Brooklyn. A child actor in the 1960's, he appeared in television commercials and was an understudy in the Broadway musical "The Sound of Music." After graduating from the Georgetown University Law Center in 1974, he specialized in representing entertainment and textile companies in arbitration hearings.

His legal career blossomed in 1982 when he became a founding partner in Blutrigh, Falcone & Miller with several former aides to Gov. Mario M. Cuomo. Mr. Cuomo's son Andrew M. Cuomo, now the Secretary of Housing and Urban Development, was a partner in the firm from 1985 to 1988.

Outside his law practice, Mr. Blutrigh dabbled in restaurant and nightclub ventures in New Rochelle, N.Y., and Los Angeles. He also branched out, becoming a boxing promoter.

He became entangled in the insurance fraud in 1990 when he was hired by three Florida businessmen seeking control of the National Heritage Insurance Company in Orlando, whose main business was selling annuities. Mr. Blutrigh would later admit that he helped the businessmen take over National Heritage by setting up a phony bank account and providing them with a fake check for \$4 million when their assets barely totaled \$1 million.

Prosecutors say the three Florida men gained control of the company's assets as soon as they turned over the check, then dipped into the company's own funds to cover the check before it bounced. Two of the men have been convicted, and a third is awaiting trial.

Mr. Blutrigh soon began reaping dividends from National Heritage. His clients, now the company's top officials, lent him \$300,000 as seed money to open Scores. One of them, David L. Davies, became chief executive of National Heritage and invested \$700,000 of his own money as the secret but principal partner of Scores, Mr. Blutrigh said.

Club Turns a Profit, Despite Shakedowns

Mr. Blutrigh said that in the summer of 1991, while Scores was under construction, he was approached by Michael Sergio, whom he knew as a restaurateur in Greenwich Village and Westchester County.

"I had heard through the grapevine that Sergio was connected to the Gambinos," Mr. Blutrigh said. The restaurateur, he asserted, told him that John J. Gotti, the head of the family, was demanding payoffs from anyone opening a nightclub at the site Mr. Blutrigh had picked. "Sergio said that certain accommodations would have to be made; otherwise they were ready to go with a bomb."

The accommodations, Mr. Blutrigh said, included giving the Gambino family about \$200,000 a year in profits from the coat check room and valet parking. Mr. Blutrigh said the Gambino family also demanded \$1,000 a week in cash and the right to choose the club's bouncers.

Asked why he did not abandon Scores at that point, Mr. Blutrigh said: "I wanted to open and run a sophisticated, upscale club. If I did not accede to their demands, there would not have been a Scores."

Laura A. Brevetti, a lawyer for Mr. Sergio, 66, declined to comment on the allegations against him. The indictment, on charges of racketeering and extortion, lists Mr. Sergio as an associate of the Gambino family. He is being held without bail while awaiting trial.

Scores, which features topless dancers and big-screen television sets tuned to sports, opened on Oct. 31, 1991, at 333 East 60th Street. About this time, Mr. Blutrigh and Mr. Pfeffer met and their business worlds began to merge.

The slim, 39-year-old Mr. Pfeffer was reared in the upper-income milieu of Scarsdale, N.Y., and while in college he opened a string of carwashes. Later, he advanced into more sophisticated enterprises: pooling investments for real estate deals and supervising mortgage portfolios for investment companies.

In 1992, through Mr. Blutrigh's introductions, National Heritage gave hefty commissions to Mr. Pfeffer for managing the company's real estate investments and for finding buyers for its holdings.

For the first year, Mr. Blutrigh said, Scores was hemorrhaging red ink, and by late 1992 Mr. Davies of National Heritage wanted out. Mr. Blutrigh's solution was to bring in Mr. Pfeffer as the chief investor and to manage the club's finances.

Mr. Pfeffer said he relished the idea of overseeing a popular nightclub that attracted show business and sports figures. He took over as executive manager, with Mr. Blutrigh remaining as his main partner and the club's lawyer.

Before buying into the club, Mr. Pfeffer said, "I had to meet Mike Sergio, and he basically laid out the situation" -- that the club was controlled by the Gambino family. "He kissed me on the cheek and told me, 'You could be the boss, but remember, you're the boss because I let you.' "

According to the Scores case indictment, from 1991 to 1997, Gambino family members extorted more than \$1 million from the owners and employees.

Mr. Blutrigh and Mr. Pfeffer said most of their links to the Gambino family arose through dealings with Mr. Sergio and Craig DePalma, 32, a co-defendant in the Scores case whom the indictment described as a Gambino soldier.

"Any claim that money was passed through Craig DePalma, we deny categorically," said John W. Mitchell, Mr. DePalma's lawyer.

Despite the payoffs, Mr. Blutrigh and Mr. Pfeffer said, the club was profitable, grossing more than \$1 million a year after its shaky start. Both said the mobsters tried to increase their loot by controlling almost every aspect of the club's operations, including choosing the toilet paper supplier, and by trying to get a cut of the \$20 admission fee.

"Some of them were scary," Mr. Pfeffer said of the Gambino family members who frequently went to the club. "They talked about blowing away people with shotguns and told us, with smiles on their faces, how easy it would be for them to kill us."

The mobsters rarely paid for meals and drinks, Mr. Pfeffer and Mr. Blutrigh said. They would also pick up cash left on tables by customers and tell waiters, " 'It's on the house; they're friends of ours,' " Mr. Pfeffer recalled.

When Mr. Pfeffer objected to the mobsters' actions, he said, he got crude threats. After one such incident, he walked into his apartment and found a bullet on his coffee table.

Big Spenders Caught In Trap Meant for Mob

The first sign of legal trouble for Mr. Blutrigh and Mr. Pfeffer came in 1994, when insurance regulators closed National Heritage after uncovering a maze of embezzlements, worthless investments, assets inflated to conceal losses and suspected kickbacks to company officials for authorizing secret loans. In 1996 and 1997, a Federal grand jury in Florida indicted Mr. Blutrigh, Mr. Pfeffer, Mr. Davies and 13 others on fraud and conspiracy charges that led to a loss of about \$400 million for the company, which went out of business in 1996.

Mr. Davies, who pleaded guilty to the charges, is serving a six-year prison sentence. He has never been implicated in the Scores case. Mr. Blutrigh and Mr. Pfeffer pleaded guilty to bilking the company of about \$13 million in illegal payments to themselves and others. Mr. Malman, Mr. Pfeffer's lawyer, said both men lost almost all the money on bad investments and extravagant life styles that included \$1,000-an-hour helicopter flights and lavish restaurant parties with mobsters and celebrities.

In November 1996, four months after Mr. Blutrigh and Mr. Pfeffer were indicted in Florida, Federal and state investigators raided Scores as part of a separate investigation of Gambino family rackets in the New York area. They also raided the Scores offices that Mr. Blutrigh and Mr. Pfeffer had shared at 3 Park Avenue.

Both men soon agreed to work undercover for the authorities. They did so after learning that they had been ensnared in a broad investigation of the Gambino family. Moreover, substantial evidence had been obtained against both men through court-authorized video cameras and microphones that the F.B.I. had planted in their offices.

A Year of Pretense And Ominous Threats

Oddly, the Florida indictments helped the two men in their undercover roles. "It gave us more credibility," Mr. Pfeffer explained. "The mob guys thought that nobody who gets indicted is cooperating, and they offered to help us raise bail and find lawyers."

But there were tense moments. At meetings concerning Scores payoffs and the investigation, Mr. Blutrigh and Mr. Pfeffer said, the mobsters often put guns on the table or ostentatiously displayed their weapons.

"They told us not to worry about the guns," Mr. Pfeffer recalled. "They said, 'It's only for rats.' "

As part of the cooperation agreement, the F.B.I. installed concealed video cameras and microphones in Mr. Pfeffer's Park Avenue office. Outside the office,

both men had recording devices under their clothes, in their cars and in cellular telephones.

Some mobsters, Mr. Blutrigh and Mr. Pfeffer said, would playfully pat them or unbutton their shirts before beginning conversations.

"It was a year of unbearable tension," said Mr. Blutrigh. "They came pretty close a couple of times to finding the wires on me."

Mr. Blutrigh, who is divorced, and Mr. Pfeffer, who is married and has a 13-year-old daughter from a previous marriage, said they expected to receive lighter sentences in return for cooperating, but were given no assurances by prosecutors.

In prison, like other witnesses in Mafia cases, they will be confined in segregated cellblocks out of concern for their safety.

"We didn't start out as criminals, but we were fast-track guys who were out to make lots of money," Mr. Pfeffer said. "By working undercover we tried to make up for the wrong things we had done, but as a consequence we'll be looking over our shoulders for the rest of our lives.

"I don't think," he added, "there will be happy endings for us."