



Department of Justice

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PAYPHONE FRAUD SCHEMER PLEADS TO MONEY LAUNDERING CHARGE

Madison, Wis. - John W. Vaudreuil, United States Attorney for the Western District of Wisconsin, announced that Jeff Frost, 54, Brookfield, Wis., pleaded guilty today in U.S. District Court in Madison to conspiracy to commit money laundering.

U.S. District Judge William Conley scheduled sentencing for May 18, 2012, at 1:00 p.m. Frost faces a statutory maximum penalty of 20 years in prison, a \$500,000 fine, a three-year period of supervised release following his prison term, and an order of restitution.

On April 13, 2011, Frost and his co-defendant Colin Nordstrom were charged in a twenty-one count indictment with conspiracy to commit wire fraud, wire fraud, conspiracy to commit money laundering, and criminal asset forfeiture. Nordstrom was also charged with making a false statement to federal agents and false declarations under oath to a federal grand jury.

According to the indictment, Frost, August Schober, and Nordstrom devised and participated in a scheme to fraudulently obtain dial around compensation fees by programming payphones to autodial toll-free telephone numbers. Per FCC regulations, payphone owners were paid \$.494 per every toll-free call placed from their payphones. This fee is typically called "dial around compensation," and is paid by the toll-free subscriber.

The indictment alleges that the defendants caused employees at their payphone company to test dial the toll-free numbers to see which numbers had an automated answering system that allowed for options that placed the call into what the defendants referred to as "automated hell." The defendants kept a list which identified the "automated hell" numbers, as well as the options needed to get into "automated hell," and how much time the caller spent in each stage of the options. The payphones were programmed to place the toll-free call, to choose the appropriate options in the automated messaging system to stay connected long enough to ensure that the payphone would obtain the dial around compensation fee, and to then hang up.

The payphones were also programmed to redial the toll-free numbers in a repeated fashion, and to call specific toll-free numbers at specific times every day for months at a time. According to the indictment, the scheme generated over \$1.2 million in fraudulently obtained dial around compensation fees from 2004 to 2007.

On February 6, 2012, Nordstrom pleaded guilty to making a false declaration under oath to a federal grand jury. Nordstrom admitted that he followed a plan from Frost to lie in the grand jury and falsely implicate another employee as the mastermind behind the dial around scheme. Nordstrom's sentencing is set for April 26, 2012. On February 17, 2012, co-conspirator August Schober pleaded guilty to conspiracy to commit wire fraud. His sentencing is set for May 1, 2012.

At today's plea hearing, Frost acknowledged that he participated in a scheme to program the payphones of Mid America Payphones Inc. to autodial toll-free numbers in an effort to collect the dial around compensation fees. From 2004 to 2007, the IRS traced \$1,525,859 in dial around fees deposited into the Mid America corporate checking account. Frost admitted that he reinvested the profits generated from the dial around scheme into buying new circuit boards and other supplies for the payphones in order to add new phones and keep the existing phones operating, and the scheme ongoing.

The case came to the attention of law enforcement after an employee at the General Services Administration (GSA) call center noticed an unusually large volume of calls being made to the GSA toll free number coming from payphones located in Western Wisconsin.

The charges against the defendants were the result of an investigation conducted by the General Services Administration, Office of Inspector General, and the Internal Revenue Service, Criminal Investigation Division.

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