



NEWS RELEASE

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FOR IMMEDIATE RELEASE

CASSTEL PRESIDENT PLEADS GUILTY TO \$8.9 MILLION MAIL, WIRE FRAUD CONSPIRACY

KANSAS CITY, Mo. – Todd P. Graves, United States Attorney for the Western District of Missouri, announced that the president of the Cass County Telephone Company pleaded guilty in federal court today to participating in a conspiracy to commit mail and wire fraud.

Kenneth M. Matzdorff, 48, of Belton, Mo., waived his right to a grand jury and pleaded guilty before U.S. Chief District Judge Dean Whipple this afternoon to a federal information that charges him with conspiracy to commit mail and wire fraud. The information also requires **Matzdorff** to forfeit \$2.5 million, which was derived from the conspiracy, to the government. According to **Matzdorff's** plea agreement, he will forfeit an additional \$2.5 million as a result of a guilty plea to an information charging conspiracy to commit wire fraud and money laundering, filed on Jan. 7, 2005, in the Eastern District of New York.

Matzdorff is the president of Cass County Telephone Company, LP (CassTel), in Peculiar, Mo. CassTel provides telecommunications services to approximately 8,000 customers in Cass County, Mo., as well as a small number of customers in the state of Kansas. CassTel is primarily owned by Local Exchange Company, LLC (LEC), where **Matzdorff** also served as president.

By pleading guilty, Graves said, **Matzdorff** admitted that he participated in a conspiracy from January 1998 to July 2004 to defraud the Universal Service Administrative Company (USAC), which disperses federal subsidies to rural telephone companies, and the National Exchange Carriers Association (NECA), which handles tariff filings and revenue distribution among carriers. **Matzdorff** and others inflated CassTel's expenses in order to qualify for \$8.9 million in unwarranted subsidies and disbursements, Graves explained.

Matzdorff admitted that he and others created false invoices in which Overland Data Center (ODC) – an Overland Park, Kan., company that provides software support and

information technology – billed CassTel and LEC approximately \$11 million in consulting and management fees. The total value of actual services performed by ODC, however, is estimated at \$240,000.

Those fictitious ODC expenses, Graves explained, were included by CassTel as allowable expenses in cost studies filed with NECA, which collects money from individual telephone companies for access and use of other companies' systems then distributes the funds back to those companies based upon their costs. The false expenses submitted by CassTel resulted in an overpayment by NECA to CassTel of approximately \$5.4 million from 1998 to 2003.

Those fictitious ODC expenses were also included by CassTel as allowable expenses for calculating Universal Service Fund payments to CassTel. The Universal Service Fund was established by the Federal Communications Commission to subsidize high-cost rural telephone systems. Those subsidies are disbursed by USAC to NECA to be paid out to the rural telephone companies. The false expenses submitted by CassTel resulted in an overpayment by USAC to CassTel of approximately \$3.5 million from 1999 to 2004.

Under federal statutes, **Matzdorff** could be subject to a sentence of up to five years in federal prison without parole, plus a fine and restitution. A sentencing hearing will be scheduled after the completion of a presentence investigation by the United States Probation Office.

This case is being prosecuted by Assistant U.S. Attorneys Paul S. Becker, Bruce E. Clark and Jess Michaelson. It was investigated by the Federal Bureau of Investigation and the Internal Revenue Service-Criminal Investigation.

This news release, as well as additional information about the office of the United States Attorney for the Western District of Missouri, is available on-line at

www.usdoj.gov/usao/mow