

Officials Probe Fraud Allegations at San Jose, Calif., Paging Company.



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Mar. 10 -- Federal investigators are probing allegations of fraud by officials at EconoPage Inc., the San Jose-based paging company whose abrupt shutdown in 1997 stranded more than 200,000 consumers with prepaid paging contracts.

On March 2, FBI agents, U.S. marshals and San Rafael police officers seized a 54-foot yacht at the Marin Yacht Club linked to Aaron R. Arnott of Fremont, one of the former owners of EconoPage. An affidavit in support of the seizure says Arnott is the primary focus of the investigation, which is examining whether EconoPage sold paging contracts that it did not intend to honor.

No one has been charged with any crimes in connection with the case. Special Agent George Grotz, a spokesman for the FBI, said the agency has set up a toll-free number and wants to hear from EconoPage customers who have not yet talked to authorities. "It's our hope to obtain information from those who believe they have been defrauded," he said.

The FBI already has collected the complaints that thousands of EconoPage customers lodged with the Santa Clara County District Attorney's office.

Repeated efforts to reach Arnott over the past week were unsuccessful, but in several previous interviews he has denied any wrongdoing. Calls to Richard Stone, a Fremont lawyer who has represented Arnott, were not returned.

The March 1 affidavit by FBI Special Agent John D. McClure was based largely on information from former EconoPage employees, bank records, surveillance and interviews with the company's suppliers and competitors. McClure alleges that Arnott used company funds to buy the yacht, and he includes allegations by a former

EconoPage manager that Arnott transferred EconoPage equipment into a new business started by associates.

Known for deep discounts and long prepaid contracts, EconoPage skyrocketed through the ranks of paging resellers after it was founded in 1994 by Arnott and a partner. In only 2 1/2, it became one of the country's largest paging resellers -- companies that sold pagers linked to other companies' networks.

Some competitors, however, said EconoPage's profit margins were too thin to survive without growth. As soon as new customers stopped signing up, they said, the company was sure to collapse.

That collapse came after EconoPage's major paging suppliers, upset about late payments, effectively stopped the company from signing up new customers. Unable to pay its bills for pagers and airtime, the company shut its doors and defaulted in an estimated \$16 million in debts.

Arnott blamed the paging suppliers for his company's downfall, saying in an interview late in 1997, "I have nothing left. You can't make my life any more miserable."

The FBI affidavit, however, suggests that Arnott had a life raft -- the HMS Pocsag, a 900-horsepower twin-engine fiberglass yacht built in 1976. According to the affidavit, Arnott paid a \$70,000 downpayment on the yacht on Dec. 27, 1996, after writing \$50,000 worth of checks to himself from an EconoPage account over the previous nine days.

Two yacht brokers interviewed Tuesday said that a 54-foot Trojan Yacht would now be worth between \$165,000 and \$228,000, depending on the type of engine.

Coast Guard records indicate that Arnott and Katie Tse bought the boat in late 1996, then sold it back to the previous owner in October 1997 -- two weeks before EconoPage shut down. On Oct. 10, 1997, Tse bought it again, the affidavit states.

The relationship between Arnott and Tse is unclear. According to the affidavit, a former EconoPage manager told McClure that the two were married in mid 1997 but the marriage was soon annulled. In an interview early last year, Arnott denied having been married to Tse. McClure's affidavit also includes the following allegations:

-- EconoPage executives spent money collected from new customers to cover losses associated with existing customers, exorbitant salaries and "spending habits." This allegation is based on information from former EconoPage manager Brett Gassaway,

who told McClure that he was owed at least \$65,000 in back pay.

-- Arnott pressed EconoPage employees to sell extended and expensive "lifetime" paging contracts up to the last hours of the company's operation, Gassaway told McClure. Paging industry officials told McClure that selling lifetime contracts was "unsound" and "not an accepted business practice within the industry."

-- Shortly after EconoPage collapsed, Gassaway told McClure, he helped move cellular phones, pagers, computers, fax machines, copiers and furniture owned by EconoPage to a new store, Anything Wireless in Cupertino. That venture was conceived by Arnott as a successor to EconoPage, Gassaway told McClure, but operated by another former EconoPage executive, Carlton Frisch.

Arnott has denied having any role in Anything Wireless. In comments sent via fax Tuesday, Anything Wireless stated that Frisch resigned in December and that "no EconoPage principal owns any part of Anything Wireless."

The company added, "Anything Wireless' management is unaware of any assets of EconoPage Inc. transferred surreptitiously ... A review of store equipment shows no shared fixtures, phones, fax or copiers. All are new, independent purchases and are not even similar to (EconoPage's) fixtures."

Frisch could not be reached Tuesday for comment.

The FBI's toll-free hotline in the Bay Area for complaints related to EconoPage is (800) 207-7676.

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