



# Department of Justice

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Eastern District of California

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## **TURLOCK RESIDENTS SENTENCED FOR MAJOR COUNTERFEIT DVD BUSINESS AND PUBLIC ASSISTANCE FRAUD**

FRESNO, Calif.—United States Attorney Benjamin B. Wagner announced that on Tuesday Senior United States District Judge Oliver W. Wanger sentenced Karen Jean Freyling, 48, and Steven Walter Butts, 62, both of Turlock, for their convictions stemming from the operation of a major Internet-based DVD importation and distribution business as well as fraudulent receipt of government benefits. Freyling was sentenced to 10 years and one month in prison, to be followed by three years of supervised release, a special assessment of \$1500, and restitution of more than \$137,000 to the Social Security Administration. Butts was sentenced to seven years and 10 months, to be followed by three years of supervised release, a special assessment of \$1500, and restitution of more than \$15,000 to the California Employment Development Department.

A jury found Freyling and Butts guilty on January 28, 2010, after a 10-day trial. The offenses of conviction included conspiracy; wire fraud; mail fraud; importing goods into the United States by means of false statements; smuggling; and trafficking in counterfeit labels, documentation, or packaging; Social Security fraud; and making false statements.

The case was the result of a joint investigation by the United States Postal Inspection Service, the Federal Bureau of Investigation, the California Employment Development Department, the United States Social Security Administration Office of Inspector General, and United States Customs and Border Protection. Assistance was provided by the Motion Picture Association of America. Assistant United States Attorneys David L. Gappa and Matthew D. Segal prosecuted the case.

According testimony at trial, Freyling and Butts began selling counterfeit DVDs online in 2006. After their accounts with Amazon.com and eBay were suspended for copyright infringement, the defendants opened three Web sites of their own where they made numerous false statements promoting the sale of their counterfeit merchandise. They claimed that they were selling new, factory shrink-wrapped DVDs, that they had been in business for more than 15 years, that Butts was employed by the Department of Justice and the Turlock Police Department, that they were selling the DVDs as a family business for the benefit of underprivileged children, and that all of their merchandise had been cleared by U.S. Customs.

In fact, Butts and Freyling imported counterfeit DVDs in bulk from suppliers in the Philippines by means of false Customs declarations. Even after U.S. Customs and Border Protection had seized several inbound packages and notified the defendants of the seizures, the defendants continued to represent to customers that their DVDs were legitimate. A representative of the Motion Picture Association of America (MPAA) testified at the trial that the defendants were selling extremely high quality pirated movies. Evidence established that the

defendants made at least \$272,000 in deposits into one bank account and \$422,000 in deposits into a different account. The defendants purchased more than 128,000 individual DVD cases that were packaged with counterfeit DVDs and labels and then shipped to thousands of customers throughout the United States. Numerous victims filed complaints with the Better Business Bureau, the MPAA, Ripoff Report, and their credit card companies. During the course of the conspiracy Freyling received thousands of dollars in Supplemental Security Income payments and Butts received thousands of dollars in California unemployment insurance benefits to which neither was entitled. In sentencing the defendants, the court characterized the fraud as “egregious, inexcusable, and long-standing,” and noted the “ferocity” of e-mail messages from the defendants that insulted, castigated, and accused unhappy customers of wrongdoing when they pointed out the inferior or infringing nature of the products sold.

On October 8, 2008, three vehicles, three bank accounts, eight flat-panel televisions, six computers, and other items used to commit the offenses were seized and have been forfeited. In addition, employees Earl Edward Riedel, 49, Raymond Paul Mott, 47, and Steven Alan LoBue, 49, all of Turlock, pleaded guilty on December 21, 2009, to a misdemeanor charge of criminal infringement of copyright and were sentenced on March 2, 2010.

A restitution hearing for all five defendants is scheduled for June 1, 2010, at 1:30 p.m.

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