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Island Empire

A Guy From Nebraska Hits it Big In St. Croix, but Triggers a Backlash

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CHRISTIANSTED, St. Croix -- No man is an island, but Jeffrey Prosser comes close.

He owns the telephone company, two local cable-television firms, a bank and the main newspaper in the U.S. Virgin Islands. He cruises St. Croix's pitted roads in a Rolls-Royce, when he isn't up in his private Boeing 727, and is refurbishing comic pianist Victor Borge's old hillside mansion here as headquarters for his business.


Jeffrey Prosser

But Mr. Prosser's rise has stirred a hurricane of controversy in this laid-back Caribbean enclave. He arrived here from Nebraska, where he was an accountant with a history of being sued over debts. Now he is embarked on "a concentrated, orchestrated plan to take over the Virgin Islands," contends Lee Rohn, an attorney who has tangled with him.

A territorial senator, during a hearing on a tax-break bill potentially worth many millions to Mr. Prosser, claimed in May that a Prosser aide had offered him an envelope full of $100 bills in return for his support on "something coming up." The senator, Allie-Allison Petrus, likened Mr. Prosser's private company, Innovative Communication Corp., to the corrupt law practice in John Grisham's novel "The Firm."

Mr. Prosser denies having anything to do with bribery and dismisses his critics as jealous. "It's a soap opera society. People live and die on rumors," he says. "There's a massive amount of envy. This is a very small island."

The U.S. Virgin Islands -- St. Croix, St. Thomas and St. John -- are at a delicate stage. The setting is beautiful, but years of official mismanagement and bloated public payrolls have left the U.S. territory's government all but bankrupt, sparking talk of a federal takeover. Graft is common; just last month, the U.S. attorney for the islands announced a major campaign against it, saying the "biggest priority in the Virgin Islands is public corruption." The islands' economy is moribund, despite a program to lure investment that involves aggressive tax exemptions.

Humble Start

Few have benefited more from the tax breaks than Mr. Prosser, although by most accounts he had little income to shelter when he first moved here. Now 43 years old, he arrived in the mid-1980s, leaving a wife and young daughter in Nebraska. "He basically had a briefcase and a suit," says Peter Ross, a local hotel owner.

Mr. Prosser's 1986 tax return, introduced in territorial court as part of his divorce, shows he drew a salary of $24,440 that year. He had a $127,000 loss related to his stake in an accounting firm started by his father in Falls City, Neb.

Mr. Prosser also left behind some creditors. An executive recruiter sued him and the accounting firm in 1981, alleging nonpayment of a fee. Ashland State Bank in Nebraska sued him in 1987 over a $40,000 short-term loan, dropping the suit when he repaid. In 1990, First National Bank of Paullina, Iowa, foreclosed on his mortgage. Says Barrett James, a director of the bank: "He moved to the islands and told us, 'I don't intend to pay -- sue my wife.' The guy's unsavory."

Mr. Prosser attributes the foreclosure to a "contentious" divorce and says the headhunter's suit was just a "fee dispute." He says he doesn't recall the bank suit.

Forging Alliances

Mr. Prosser first traveled to the Virgin Islands with an accounting client to investigate a deal, says the client, Norman Vaux II, a developer who was planning a futuristic city in Colorado complete with a space-shuttle landing site and massive radio tower. Mr. Vaux gave up on the Virgin Islands after his Colorado project collapsed, spawning years of litigation.

But Mr. Prosser stayed in the islands, where he developed a knack for winning favor with powerful locals. In short order, he landed a job reviewing the books of Ann E. Abramson, a former senator and prominent business leader here.

They got on well enough that he included her in one of his first money-making efforts, a plan to sell life insurance to the Virgin Islands Government Employee Retirement System. According to a document detailing the effort, Mr. Prosser and several partners figured to divvy up $25 million in commissions over 10 years if the deal went through. But one partner, Donald R. Hannum, who was sanctioned by the Commodities Futures Trading Commission for cheating clients in California, says the plan foundered because certain legislators "wanted rebates on all the commissions." Mr. Prosser says he doesn't recall such a request.

Ms. Abramson -- who was recently acquitted of taking a kickback from a contractor making hurricane repairs while she was public-works commissioner, but convicted in Virgin Islands federal court of making false claims -- won't comment on her relationship with Mr. Prosser. "You make any s--- and say anything about me, I'll get your a-- sued," says the septuagenarian Ms. Abramson, interviewed outside her office up the road from a cruiseship pier bearing her name. "You don't know who you're talking to."

Mr. Prosser also forged an alliance with Ashley Andrews, a politically connected lawyer. Together with Mr. Prosser's longtime lawyer, John Raynor, and a couple of Nebraska state senators, Mr. Andrews sought to bring video gambling machines to the islands. But Mr. Andrews implied they would have to make certain payments to facilitate government approval of the project, says one of the Nebraska state senators, John DeCamp.

"Once you know the system in the Virgin Islands, it's like milking the biggest bossy cow in the world," Mr. DeCamp says. "The milk keeps on coming if you know how to squeeze the big teat." In the end, Mr. DeCamp says, the investors refused and the video-gambling plan failed to get government approval. Mr. Andrews denies that he ever implied that payments would be needed.

Mr. Prosser hit the jackpot anyway. Learning that ITT wanted to shed its local telephone affiliate, he made a winning bid of $87 million. For financing, he approached Cornelius Prior, who handled telecom finance at now-defunct Kidder, Peabody & Co. Mr. Prior decided he wanted a piece of the deal himself; he arranged financing from the old E.F. Hutton & Co., leaving Kidder and taking a 30% stake for himself in the phone company, called Virgin Islands Telephone Corp., or Vitelco.

Messrs. Prosser and Prior purchased Vitelco and then repaid Hutton with a nearly $100 million credit from Rural Telephone Finance Cooperative, a new, not-for-profit lending co-op in Herndon, Va.

Phone Sex

Next, they bought control of Guyana Telephone & Telegraph Co., where they found a well-paying business involving phone-sex calls. U.S. phone-sex operators, frustrated by problems collecting from American users of the 1-900 lines, approached the company. Messrs. Prosser and Prior agreed to route the calls through Guyana and back to boiler rooms in the U.S., splitting the Guyana phone charges with the phone-sex operators. Deadbeat American customers now risked having their local phone service cut for failure to pay their phone bills.

Board of Innovative Communication Corp.

Company reports indicate that by 1996, phone-sex traffic accounted for more than half of the $206 million annual revenue of Messrs. Prior and Prosser's umbrella phone

Jeffrey J. Prosser, company's chairman and chief executive officer

Thomas R. Minnich, company's chief operating officer

Richard Goodwin, author, former aide to President Kennedy

Michael Prosser, managing partner of Prosser Professional Corp. in Falls City, Neb.

Sir Shridath Ramphal, former British Commonwealth secretary, former Guyana attorney general

John P. Raynor, partner of Raynor, Rensch & Pfeiffer law firm in Omaha, Neb.

Ronald M. Sanders, high commissioner to U.K. representing Antigua and Barbuda

Terence A. Todman, former U.S. ambassador to Argentina, Denmark, Costa Rica, Guinea and Chad

John G. Vondras, president director of PT Aria West International

company, which they called Atlantic Tele-Network Inc.

They had taken that company public in 1991, making Mr. Prosser suddenly the owner of stock worth nearly $70 million. He built a beachfront mansion, remarried and bought fancy cars.

His spending habits strained the partnership, though. Mr. Prosser had the company buy a Westwind jet and then an Astra. Once, he ordered a company jet flown to Indonesia so he could hop around its islands in style while prospecting for deals, according to Mr. Prior, who says Mr. Prosser wanted to create an impression that theirs was a company of size and importance. Says Mr. Prosser: "Neil's view on how to run a company was certainly different than mine."

Mr. Prior lined up shareholder support to oust Mr. Prosser, but the move was overturned in court. The partners finally agreed to a split-up in August 1997. Mr. Prior got the Guyana phone company and Mr. Prosser got the one in the Virgin Islands, which he took private. Mr. Prosser "had a great relationship with the governor" of the islands, Mr. Prior says. "It was more valuable for him to have the Virgin Islands rather than for me to."

Indeed, the breakup came at the height of Mr. Prosser's political influence. The U.S. Virgin Islands governor was Roy Schneider, who was a former Vitelco board member and who had won election after fund-raising help from Mr. Prosser.

Tax Exemptions

Mr. Prosser received substantial tax benefits during this time, courtesy of the U.S. Virgin Islands' unusual tax status. Residents pay income taxes to the local government instead of to Washington. Exemptions can be granted by an Industrial Development Commission, appointed by the governor.

In 1997, the commission granted a taxbreak extension for Vitelco at the full level instead of a partial level initially approved, a move widely viewed as coming under pressure from the governor. "I would have no idea whether the governor intervened," says Mr. Prosser. Mr. Schneider declined to be interviewed.

Earlier, under Mr. Schneider's predecessor, the commission granted a tax break to Mr. Prosser's Virgin Islands Community Bank, over strong objections from other banks.

About two years ago, Mr. Prosser bought the Virgin Islands Daily News. Soon, some former staffers say, they were discouraged from running articles critical of Gov. Schneider. Penny Feuerzeig, who headed the editorial page, says Mr. Prosser's public-relations chief, Edwin Crouch, penned an editorial criticizing people who wanted to investigate Vitelco's rates. In May 1998, she resigned. "The P.R. flak for the company is the most powerful voice at the newspaper -- it's appalling," she says. Mr. Crouch says Mr. Prosser doesn't interfere with news and is entitled to have an editorial page that reflects his opinions.

As his profile grew, Mr. Prosser posted bodyguards in his backyard and acquired equipment to detect listening devices. "I'm paranoid," he explains, adding that he is concerned about acquisition plans leaking. He also got into a spat with the Customs Service, which twice stopped a plane of his at U.S. airports to search for drugs. None were found, and Customs eventually apologized. Mr. Prosser attributes the searches to anonymous tips to government hot lines.

Break Dancing

To fund more acquisitions, Mr. Prosser increased his borrowings from the Rural Telephone Finance Cooperative to nearly $500 million, the co-op's largest single credit. Then last April 1, a big headline in his newspaper announced: "Prosser bails out the V.I." In what some readers initially took as an April Fool's joke, the paper told of a pending agreement under which Mr. Prosser would develop a resort hotel; build the Virgin Islands a drag strip, a baseball field, a library and other facilities; and give the government 1,000 acres, to be distributed to public workers claiming past-due wages.

In return, Mr. Prosser would receive a 30-year tax holiday for most of his holdings, a provision whose value his newspaper put at $180 million, and critics estimated at far higher.

As controversy over the measure swirled, some businesspeople and lawmakers say they were pressured to support it. Samuel Raphael, a developer who was opposed, says he got a call from the president of Mr. Prosser's Virgin Islands Community Bank asking why he was going against his banker. He says the bank later stepped up efforts to foreclose on a loan. The bank president didn't return calls seeking comment. A Prosser spokeswoman says the loan was called because it was long overdue.

Then Sen. Petrus rocked the territorial legislature with an accusation that a Prosser vice president, John Tutein, had tried to bribe the senator. Despite the allegation, a bill embodying the 30-year tax break for Prosser businesses passed in May, only to be vetoed by a new governor.

The drama continues. In August, a U.S. grand jury indicted Mr. Tutein on five bribery counts. In court pleadings, his lawyer denied them and said that if his client offered money, it was a personal campaign donation. Asked about the matter, Mr. Prosser says, "We didn't have anything to do with that and we've never had anything to do with bribing anyone."

Mr. Prosser recently agreed to buy the Virgin Islands banking operations of Chase Manhattan Corp. Meanwhile, there are indications the grand jury that indicted Mr. Tutein is pressing a broader public-corruption probe. A senior Prosser aide has been called to testify, according to a director of Mr. Prosser's Innovative Communication, Richard Goodwin.

Although Innovative is private, it pays $100,000 a year to directors such as Mr. Goodwin, a former John F. Kennedy aide who earlier in his career helped expose the quiz-show scandals of the 1950s. Mr. Goodwin says he doesn't think Mr. Prosser had anything to do with the alleged attempt to bribe a legislator. "I can't conceive of Jeff doing that kind of thing," he says. "It's much too small potatoes anyway."

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