

Subject: Capitalwerks

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„Dear Leasing Professional,

You have fraudulent deals in your portfolio. If you have not already, you will soon have serious portfolio problems. A scheme is being perpetrated on your company that is potentially larger than NorVergence and which will result in tens of millions of dollars in portfolio losses. You are at risk if you are either working directly with Capitalwerks/PreferredLease the company responsible for the fraud or; if you have any of the following, but not limited to, vendors in your portfolio-EcoTech, Trynetics, Delta Services, Sebrim Systems, I-Systems, Infinity Services, MacroTech, and Add-on Computers. We even have a DBA of

Capitalwerks/Preferred Lease set up to legitimize these transactions-
Working Capital Technologies of
America.

This is how it works. Capitalwerks/Preferred Lease identifies a company looking for a working capital loan through one of their thousands of cold calls. The call from Capitalwerks/Preferred Lease starts with an inquiry about an equipment lease but then takes a turn when the potential lessee says they have a need for a loan but they do not have any equipment needs. Not a problem, this is normal. Capitalwerks/Preferred Lease specialty- making up equipment.

Mark McQuitty, Jim Raeder, and Tim Lewison have set up a vast network of computer vendors that falsify invoices (they are even part owners in a few of these vendors). Why would the vendors participate in this fraudulent activity? Easy money! The vendors, primarily computer vendors, simply create dummy invoices (either no equipment exists, the equipment is already owned by the company- sale-leaseback, the equipment is old, or the equipment is on your restricted list). These vendors receive the funding proceeds from you and they then cut a check to Capitalwerks/Preferred Lease less their commission, which usually is half the profit. Capitalwerks/Preferred Lease mainly targets sending this fraudulent business through smaller equipment lease brokers. We employ this strategy in order to keep our own portfolio relatively clean.

When the fraudulent deals blow up they won't be linked back to us. The broker will keep quiet because he knows he has help perpetrate the fraud. This scam is getting extremely sophisticated so just because you have done an inspection on lessees of the above mentioned vendors; don't think you are out of the woods.

Capitalwerks/Preferred Lease will actually ship dummy equipment (typically computers). They ship the dummy equipment and then once the inspection is done they instruct the lessee to send it back to them. When the inspector comes in he sees the boxes of computers in the lobby and will sign off that the equipment was there.

So you ask, what is the big deal about not having any equipment? You probably have a policy on soft collateral (software, etc.). Why not

a working capital loan?pan>You don't have equipment but you have a lessee that would have qualified for a lease had the lessee had an equipment need? Two reasons- first, a lot of the deals have had their credit scrubbed and second a request for a working capital loan shows desperation on the borrower's side (the credit reports just haven't picked this up, yet).Both of these issues will lead to a default rate that will be substantially higher than normal.

‰Don't take my word for it. Check to see if you have any of the vendors mentioned above in your portfolio. Ask your brokers if they are accepting applications from Capitalwerks/Preferred Lease and order a follow on inspections on any lessee with the above mentioned vendors (make sure the inspector- obtains serial numbers, turns on the computers, and checks the processor speed and memory to see that it matches the invoice. Also, independently verify the value of the equipment).?.more laterI I'm out, The modern day Upton Sinclair P.S. - This will be the next New York Times story.
P.S.S.- Was Jim Raeder in New York last week?
P.S.S.S- Ask us about the deals we are buying back from GE.‰

The email was not only broadcast to the people named in the original e-mail, but to others.

Jim Raeder responded to the first one:

His latest to those addressed:

„You recently received an email from an individual claiming to be an employee of CapitalWerks. The information provided in this libelous and slanderous attack couldn't be further from the truth. This coward whom believed could hide behind a thinly veiled anonymous email address has been identified and is in fact not an employee. The letter has since been removed from Leasing News as the information was proven false and misleading. This individual whom works for a competitor will find that his attack on our character was a costly mistake.

„I realize by reading the message boards of every public company that each and every CEO and CFO are under attack from people that are jealous and envious of their accomplishments, or have bet on the companies stock to go down. I believe we will continue to be a target

as long as we work in this highly competitive and lucrative industry.

„It has been a difficult last four years for most leasing companies including ours to survive the difficult economic downturn. There's enough business for all of us out there now and to focus on the negative vs. the positive results in less than optimum results. Thanks for taking the time to listen to the truth and thanks again for your continued support.‰

J. Raeder