

## Operation Lease Fleece

### Anatomy of a Sting: Agents to Close Books on Months-Long Investigation

*Capping a drama that reads more like a Hollywood script than a case of white-collar crime, federal agents in California closed a months-long undercover operation in November, pulling the lid off what prosecutors say was a nationwide lease-fraud racket.*

*By Christopher Moraff*

**F**rom an office in Irvine, CA, agents from the FBI worked undercover for nearly a year gathering evidence — including video, taped phone conversations, photographs and reams of documents — that implicates 23 suspects in crimes ranging from mail fraud to conspiracy.

Other defendants face charges of obstructing justice for allegedly destroying documents and lying to investigators as the scheme unraveled.

Dubbed “Operation Lease Fleece,” the ten-month sting initially focused on employees of two California-based lease brokerage firms: CapitalWerks and Brickbanc Capital. But by the time agents moved in to shut the operation down, this core group had blossomed into a loose confederation of co-conspirators and parallel operations stretching from Las Vegas to New Jersey.

Rather than there existing one cohesive conspiracy, the Feds say, the scheme more likely involved a number of smaller frauds, each following the same method of operation and with overlapping players.

A review of court documents offers a picture of a multistate, multilevel conspiracy to obtain cash from funding sources. Yet for all its seeming complexity, the premise upon which the scheme operated was fundamentally simplistic.

Evidence shows the defendants used phony computer leases to generate cash proceeds for third-party borrowers, keeping a portion of the money for themselves.

Over the course of three years, authorities say the companies helped defraud at least seven funding sources out of roughly \$20 million — and they’re still counting. Prosecutors say the investigation is ongoing and more charges are expected.

“This whole investigation has run the gamut,” said Assistant U.S. Attorney Jennifer Waier, a member of the team handling the case. “We’ve gotten the leaders, we’ve gotten the insiders, we’ve gotten the facilitators, the people that worked the phones and brought the deals in, and we’ve also got the lessees.”

According to Waier, the “leaders” in this case were the principals of CapitalWerks, Mark McQuitty and James Raeder; and Brickbanc’s Adam Zuckerman.

Reached for comment, Raeder said he has no idea why his company was implicated, adding that he hopes to get to the bottom of it soon.

“This whole ordeal has caught me completely off guard,” said Raeder, in a recent phone interview with the *Monitor*. “I’m still trying to find out how and why we got involved. We’ve hired people to look into it to try and find out where this bad paper came from and where it ended up.”

What’s more, Raeder said he takes issue with how the U.S. Attorney’s office has characterized the case. “They’re making it seem like there’s this huge conspiracy and most of those people are not even known to us,” Raeder said of the other defendants. “No one knows anybody on that list; we don’t know anybody on that list.”

Neither McQuitty nor Zuckerman could be reached for comment.

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Waier would not go into detail about the operation. But according to information obtained by the *Monitor*, the investigation apparently evolved as parallel operations focused on the principals of CapitalWerks and Brickbanc, each of which allegedly set up their own networks of brokers and faux equipment vendors to facilitate lease fraud.

Court documents suggest that CapitalWerks often worked behind the scenes, farming out deals to other brokers — companies like Bach Business Credit and Santa Fe Equipment.

Jon Budge, the former president of Bach Business Credit, said the charges came as a surprise to him and he downplayed his role in any alleged fraud.

“I’m like a grain of sand on a beach,” said Budge. “We’ve consistently had a zero default rate with our banks ... [then] someone calls you and says ‘can you do this deal?’ and the next thing you know everything falls apart.”

Authorities concede that the defendants represent differing levels of culpability. CapitalWerks, for example — and its affiliate Preferred Capital — had been on the Fed's radar for some time prior to "Operation Lease Fleece."

Small business owners complained for years that they had been ripped off by the company and its principals. In 2005, an Alabama jury awarded \$9 million to a contractor for fraudulent marketing by CapitalWerks, but a judge subsequently ruled the award was too high.

Since that time, the Better Business Bureau of Southland has logged 55 complaints against the company, most of them involving failure to provide refunds.

It was at some point during this investigation of CapitalWerks that representatives of Citigroup contacted authorities after learning that one of its client managers was conducting unauthorized business dealings with another California lease broker, Brickbanc Capital.

**“Special Agent Bonin, masquerading as a representative of Main Street Bank, called defendant to verify that defendant had received the computers from Digicom so that Main Street could fund the loan. Defendant told Bonin that he had received the computers and they were up and running.”**

— William Bondurant, *FBI Special Agent*, from affidavit

According to court records, the employee, John Callahan, began working with Brickbanc sometime in 2004, allegedly facilitating bogus lease deals generated by Brickbanc through his employer for funding. Citigroup says it suffered an estimated \$9.5 million in losses as a result.

For the most part, the 23 complaining documents read like a carbon copy of each other. Based on what they say, the scheme worked like this:

From 2003-2006 the defendants used guerilla-marketing techniques such as blast-faxes to advertise money loans and working capital to small businesses. Those that responded to the ads either became co-conspirators or unwitting accomplices in the scheme.

The defendants allegedly submitted equipment lease applications along with false invoices that purported to document the sale of computer equipment to the small businesses. But for the most part, the equipment was never purchased.

The small businesses were reportedly coached on how to deal with inspectors from the funding sources with the proceeds of the scam divided between the business owners, vendors and the lease broker.

“These invoices were designed to trick the lending institutions into paying for non-existent and/or overvalued equipment,” said FBI Special Agent William Bondurant, a former vice president in charge of retail and commercial lending at Bank of America, in an affidavit outlining one of the cases.

In the eight-page document, Bondurant details the investigation of a businessman named Nohad Mousa, owner of a Middle Eastern music and electronics store in Anaheim, CA, called Sau Wa Sorra. Mousa was conspiring with a broker/vendor firm called Digicom US on his own fraudulent lease deal.

According to the affidavit, over the course of the previous year, Mousa and Digicom's owner George Simon had obtained at least two leases valued at \$94,775 from New Jersey's DDI Leasing — both of which were in default. After speaking with executives of DDI, an FBI special agent named Paul Bonin began an undercover operation targeting Mousa.

Bonin declined to comment for this article, but records show that in February 2006 he posed as a lender and entered into a deal with Mousa to fund leases for 15 to 20 computers.

“Special Agent Bonin, masquerading as a representative of Main Street Bank, called defendant to verify that defendant had received the computers from Digicom so that Main Street could fund the loan,” Bondurant said in the affidavit. “Defendant told SA Bonin that he had received the computers and they were up and running.

A short time later, Bonin paid Mousa a visit — this time posing as a Main Street Bank asset manager. According to the affidavit, Mousa told Bonin the computers were off-site being outfitted with software. When asked where the 15 to 20 servers would reside, Bonin says, he was shown a closet.

During a subsequent visit by both Bonin and Bondurant, Mousa reportedly admitted his role in the scheme.

Today, Mousa remains in custody as a flight risk. The other 22 defendants received summons to appear before a magistrate. At press time, Waier said three of the defendants had presented themselves to authorities on December 11 and were all released on bond.

Asked where the investigation will go from here, Waier makes it clear it is far from over.

“We are continuing to investigate the equipment vending industry — it is a pretty widespread problem,” Waier said. **m**

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**Christopher Moraff** is the associate editor of the Monitor.