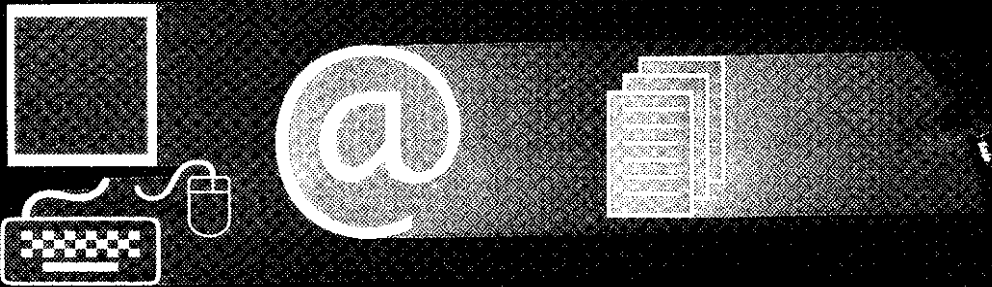


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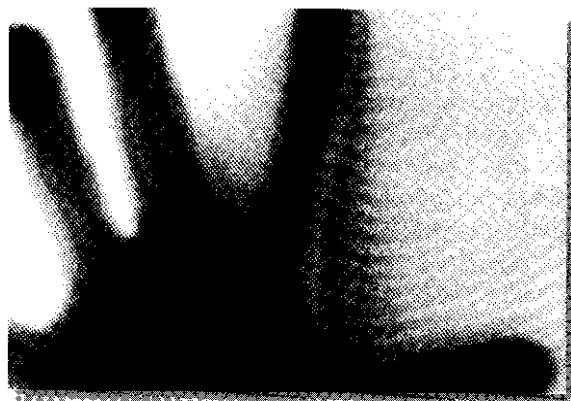
The Fraud Textbook

The Whiteland and Via Distribution Successes

If I wanted to become a fraud artist, I believe I could take any of your companies for quite a bit of money. Your credit department, collections department and lawyers would be spinning their wheels for weeks and months trying to figure out what happened. For instance, I could make it look like a fairly large company that had been around a long time simply closed down. Most credit managers would write-off the account to bad debt or have their collection agencies write some great closeout letters. Even if you figured out what really happened, I could be starting my new operation against new targets or I might be able to come back to your company.

If I, a professional, accomplished fraud artist, see a vulnerability in your credit granting procedures, I can exploit your vulnerabilities again and again. A successful fraud, in my view, is one that steals money from victims, but no one knows it occurred. Fortunately, I am on the good guy's team and my interest is in helping people avoid the fraud artist.

Hopefully, after reading this, someone with my knowledge and who lacks any intention of paying his bills would be less likely to succeed in obtaining your goods and services for free. If I am going to con the most cautious credit manager I need to do the following:



8. Find three suppliers who will vouch for me or get three 1-800 numbers and fax numbers; or get a VOIP telephone with a call display that can display three different supplier names; or get three telephone lines that my phone system answers as the suppliers in my credit application. (I don't have to do this part in my warehouse. I can have a friend in an apartment answer as different suppliers and fax back glowing references. I just need to get a guy who can change his voice three different ways or can change his handwriting.)
9. Get a certified auditor (CA) to send out audited financial statements, or cut and paste some CA letterhead on my glowing but fake audited financial statements.

Whiteland Resort Supply and Services, Inc. and Via Distribution did most of the above and took suppliers for millions in 2004, 2005 and 2006.

Whiteland Resort Supply and Services, Inc.

Whiteland Resort Supply and Services, Inc. was federally incorporated in Canada on May 27, 1997. Its original name was Whiteland Transport, Inc. until October 1, 2004. (You can pick up shells or inactive corporations that have been around for decades for about \$1,000. Just call the principal and ask him if he wants to sell his inactive corporation.)

Whiteland's principal Aliraza Ashkarian did just about everything to make the victims feel like they were dealing with a legitimate bill-paying corporate citizen. His website carried the logos of Shriner's Hospitals, Four

If I, a professional, accomplished fraud artist, see a vulnerability in your credit granting procedures, I can exploit your vulnerabilities again and again.

1. Buy a shell corporation that was incorporated a long time ago.
2. Register a domain name.
3. Pay for a 1-800 number and fax.
4. Create a high-end website, with lots of well-known names as alleged customers, show many departments, extensions and email addresses.
5. Buy a high-end phone system with many extensions/departments.
6. Rent a warehouse.
7. Open a bank account, put some money in the account, secure a LOC with a GIC; or, get a VOIP telephone with a call display of a recognizable

Seasons Hotels, Sheraton, Hilton and Radisson. Too bad no one asked why the logos were pixilated and fuzzy—that's what caught my eye. The logos were obviously lifted from the corporate sites of other companies without permission. If someone had bothered to call, none would've verified doing business with Whiteland and that they do not give permission for other corporate entities to post their logo unless they were really close corporate partners. The D&B "Decide with Confidence" logo was also proudly displayed with Whiteland's D&B number. There were financials, but no one bothered to notice that the financials were unaudited. Odd for a company that does \$8.5 million in sales. Did anyone read the CA's caution, "information supplied to me by the company"? Give me a good computer, a great color laser printer, give me an underachieving bookkeeper with a lot of imagination and I can present to a CA documents that confirm my company makes \$50 million, with lots of profit and assets. Just exactly what the CA wants to hear and see and just exactly what you want to hear and see.

The second part of the fraud required a bank that reported no NSF's and showed lots of money in checking with probably a line of credit that fluctuated, but with lots of room. In Whiteland's case, the checking account contained mid-range five-figure amounts, but no borrowing facilities. I am sorry, but everyone borrows. That should've been a red flag.

The final part of the fraud required good references. Whiteland bought a phone system, a laser printer and some computers, paying for all in full. Did anybody check how long these credit references were actually doing business with Whiteland? Did anybody ask about the amounts? No, because Whiteland gave 1-800 numbers for large corporations. The

credit analysts were probably just dazzled by the big corporate names Whiteland used as credit references so they gave their stamp of approval to sales. By the time the analyst went through voicemail hell, they just gave up. As long as someone confirmed them as a customer with a good credit record, they passed the test.

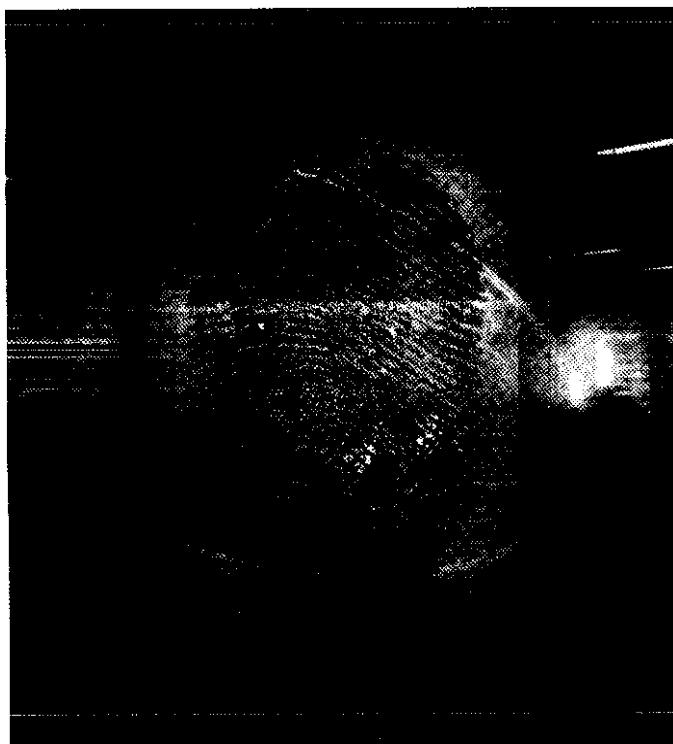
The victim companies' sales departments, now with satisfactory financials, great bank and trade references—and with credit's blessing, of course—say, "Everyone open the vault and ship these guys all the crap they want!" So for a few months in 2005, companies shipped and shipped and shipped everything from laptops to LCD monitors to air filtration units to A/C units. One guy characterized it as enough equipment to outfit a hospital. It turned out that the stuff probably went in containers to Iran, possibly funding terrorism; who knows.

It was only because of the Internet and some loose ends that everyone eventually figured out what happened, and the FBI and later the Royal Canadian Mounted Police got involved. But by now everyone at Whiteland had disappeared.

Via Distribution

In 2006, Via Distribution led the evolution of scamming. Some people said the people behind Via were the same people behind Whiteland. It was nearly perfect, except that we and several other creditors found out what really happened, thanks again to the Internet, some loose ends and mistakes in their techniques.

Via Distribution was incorporated in Quebec in 1998. In 2006, they had allegedly been in business eight years.



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Once again, most of the company logos posted on Via's website did not conduct business with Via nor did they give permission for use of their trademarks. When we called one household-name electronics manufacturer, they told us their lawyers were in the middle of an injunctive "cease and desist" order against Via for trademark infringement.

The Plan, Step by Step

Via's third trade reference, Electronic Liquidators, was quite an eyebrow raiser. The guy who signed the trade reference for Electronic Liquidators, "Mike," reported dealing with Via for three years, 30-day payment record, no NSF's, "very good customer" and high credit of \$110,000. When we called Mike, he said that he stood by his faxed credit reference and said that he was now selling \$50,000 a month to Via. When we reversed numbers in Electronic Liquidators' phone number, it belonged to Millennium 3000.com Ltd. Millennium 3000 was incorporated just three months before Via and had previously gone to our client looking for credit. When we called the receptionist at Millennium and asked for Mike's title, she basically said he was hired warehouse help and had no authority to give a credit reference.

Reference number two, Publitex, reported that they had been dealing with Via for five years, no NSF's, average 24 days to pay and high credit of \$76,237. In reversing Publitex's phone numbers, we found they were cell and residential numbers. Here's what happened when we called. Vince answered and we noticed lots of background noise, strange for a business line; it sounded like a mall.

"Hey Vince, where are you?"

"I am shopping."

"Vince can you verify that you do \$70K a month in business with Via Distribution?"

"Yes, no problem. That is correct."

I sincerely doubt Vince has given anybody \$76K in credit.

Reference number one, LCI Group, spoke for itself. LCI Group was a very early, very crude Whiteland, and its phone numbers belonged to a couple of residences. LCI did not get away with much, but found a niche later, giving out phony credit reference to buddies in the same line of work.

Via's Fraud Plan

Part 1: Show the credit people we have been around for a few years.

Part 2: Do the flashy website thing again. Don't be stingy, spend the five bucks a year it costs to register our own domain. Let's see, let's make our partners Sony, RCA, Sanyo, Lacoste and Calvin Klein.

Part 3: Work up phony credit references.

Part 4: Claim validity through D&B number.

Part 5: Fake solid bank references.

The next step of the fraud was the D&B number again... Trust with Confidence! Now, I do not mean to insult D&B here. I know that sometimes D&B cannot get accurate information on private companies and sometimes has to ask the companies' directors for information to complete their file. Sometimes, you have to take a D&B report with a grain of salt.

Via's bank reported no NSF's, had dealt with the customer for three years, had an LOC in the medium six-figure range, but was 99% utilized. Now that is a red flag. Many, many people missed it. The creditors who lost money to Via mostly included electronics wholesalers and leasing companies, but also newspapers, a high-end jewelry retailer and high-end electronics retailers.

Via Distribution was allegedly a wholesaler of cheap electronics. What on earth would they be doing buying seven plasma TVs at retail prices?! This store's sales guys really must have had a brain cramp that day or were looking to meet some kind of crazy sales quota, and Moe's Electronics (not the business' real name) almost lost a truckload of electronics. I say almost because now comes the next level of fraud.

Fake Bankruptcy and Receiverships

The lesson the Whiteland guys took to Via was if you just close down after ripping off big corporations, law enforcement comes looking. So, how do you avoid that and make a relatively clear break? What if instead of closing and running away, you hire a trustee and file for protection under CCAA or Bankruptcy under the BIA (Canada's equivalent of the Bankruptcy Code)? Your victims will receive a proof of claim or proposal from a licensed trustee, there will be creditors' meetings, you will decry the market conditions of the retail industry and apologize to everyone. You hire a patsy to meet with the creditors, who knows nothing about your real business and takes the brunt of the creditors' wrath. If anyone figures out the bankruptcy is a scam, you bought yourself a few more months' time to sell your booty, which is safely at other secret locations or with legitimate retailers, and you make a few more bucks.

Back to Moe's Electronics. Moe's truckload of electronics arrived at Via and as the truck backed up to unload the merchandise, a representative from the trustee walked over to the driver and said, "What are you doing?" The driver said, "Making a delivery." Trustee said, "No you're not. This company is bankrupt."

Moe's dodged a bullet. Had they filled the order a day or two earlier, had the driver drove a little bit faster, they would've been out a ton of money.

Via's bank lost a half million dollars in this scam. How could that be? Well it turns out that Via Distribution, jack of all trades, selling electronics, clothing, you name it, sold the bank on a business plan to buy a printing press to save on printing and advertising costs. So the bank extended \$500K on phony PO's, bills of lading, invoices, etc. The bank did a site visit to confirm the printer was in Via's warehouse and gave Via a \$500K line of credit.

When Via filed bankruptcy, the bank was not worried. They believed they were secured and could sell the printer and cover losses. The monitor hired an evaluator to look at the printer and ascertain its value. Upon return, the evaluator told them to give him \$5,000 to bring it to a dump for them. Turns out, the printer was just an empty shell, there was nothing on the inside. It just *looked* like a huge printing press. All the computer parts, ink and machinery were either never there or picked apart and sold. Even a well-known bank that's extra cautious with credit and with lots of risk management people lost \$500K.

How can you or I do better? Here is my checklist of lessons from Whiteland and Via Distribution:

Turns out, the printer was just an empty shell, there was nothing on the inside. It just *looked* like a huge printing press.

- 1) **Look at the incorporation date and credit history.** In both the Whiteland and Via cases, the corporations were many years old, but their credit history only started a few months before their suppliers suffered their losses. Always perform a corporate search on a company when you feel concerned about the information in the credit application. If a company claims to be eight years old and you pull a credit report and see no inquiries or credit history in the last seven years, but all of a sudden there are hundreds of inquiries in the last 90 days ... that is a red flag.
- 2) **Do reference checks on the bank and trades.** Just because a credit reference says that the applicant is a great customer and pays their bills on time does not make it so. The credit references could be cohorts in a fraud, giving credit references from their cell phone or from their rented apartment. If you are dealing with an electronics seller and you do not see JVC, Sony, Canon or Fuji as a reference and have verified that you are really calling JVC, Sony, Canon or Fuji ... that is a red flag. Length of credit history is an important factor. Fraud artists might make their payments on time for 60 days to draw you in for a bigger haul and this is what happened in both the Whiteland and Via cases. If the applicant has not dealt with a major, well-known supplier for a reasonable period of time and you have never heard of the credit references ... that is a red flag.
- 3) **Reverse the numbers.** In almost every case, the phone numbers for all the locations of Whiteland and Via Distribution and their references were home or cell numbers. If your new customer or the credit references have not registered a business number with a major business carrier ... that is a red flag.
- 4) **Look at the website.** In both cases, Whiteland and Via Distribution lifted the logos and trademarks of established and respected companies and posted them without permission. As I stated earlier, we checked with one manufacturer and they said that Via Distribution had been served with a cease and desist order ... that is a red flag.
- 5) **Look at the principals.** In both cases, the Whiteland and Via Distribution companies claimed to be multi-million-dollar companies. You would think then that the owners of these companies would at least own their house, live in at least a middle class neighborhood and have decent personal credit and few or no lawsuits against them for not paying their debts. Our investigators found that the principals of these companies owned next to nothing of value, lived in low to lower middle class areas, had numerous law suits against them for not paying their debts and had lousy personal credit histories. If the owners own nothing, live in poor or average neighborhoods, have lousy personal credit history and have active legals against them ... that is a red flag. ●

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