



FOR IMMEDIATE RELEASE

**WARRANTY AND SERVICE ABUSE REMAINS SIGNIFICANT
THREAT TO HIGH TECH INDUSTRY**

**AGMA Member Company Cisco Actively Cooperates with Law Enforcement to
Prosecute Perpetrators of Fraud; Wins Restitution of Over \$21 Million**

LOS GATOS, Calif., November 30, 2010 – Warranty and service abuse fraud continue to be a major, growing threat to the IT industry. The [Alliance for Gray Market and Counterfeit Abatement](#) (AGMA), a non-profit organization dedicated to addressing gray market, [counterfeiting](#) and warranty and service abuse of branded goods around the globe, today announced that Cisco, an AGMA founding member company, has referred to law enforcement for the criminal investigation and prosecution of several warranty and service abuse fraud matters. The sentencing in one such case recently resulted in a judgment against the defendants of over 25 combined years of federal imprisonment and more than \$21 million in restitution to Cisco.

By definition, warranty and [service abuse](#) refers to the usage of services or warranties to which the customer or recipient is not entitled. This can include actual equipment replacement, technical support and/or software without proper warranty or entitlement contract - generally with the intention to benefit from defrauding the provider. In other words, service abuse is service usage by a party that is not entitled to receive the service.

Cisco takes the issue of warranty and service abuse very seriously, and in recent months has actively cooperated with law enforcement agencies in support of a number of successful prosecutions by the government. One such case just had a sentence handed down against defendants who faced charges involving a mail fraud and money

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laundering scheme that brought a loss of over \$21 million to Cisco, a leader in the design and manufacturing of computer network routers and other equipment.

According to the indictment, the defendants submitted fraudulent claims to Cisco in order to receive replacement parts under Cisco SMARTnet contracts. They then sold these replacement parts on the secondary market to downstream customers. Cisco's SMARTnet is a contract service that covers Cisco equipment and allows end users to obtain technical support and advance replacement parts. Advance replacement allows end users to obtain replacement parts immediately, without having to return the failed or defective part first. SMARTnet contracts are not transferable and benefit the original end user only. However, if the covered product is transferred to another party, the new owner has the option to register the part with Cisco to obtain a new SMARTnet contract.

[Ram Manchi](#), president of AGMA, notes that, "The sentence handed down in this particular case is one of the harshest to date, consisting of over 25 years imprisonment combined for the three defendants, and over \$21 million in restitution."

Warranty and service abuse is a relatively unknown issue and a growing problem that imposes a significant financial drain on companies. Recent study results confirm warranty and service abuse activity is estimated to result in a three to five percent loss in revenue alone. However, these amounts can be significantly reduced with appropriate vigilance and controls.

According to Special Agent in Charge Jeannine A. Hammett of the IRS Criminal Investigation Division, "The object of schemes like these is to defraud the government and the taxpaying public. IRS special agents identified and investigated the individuals involved in the scheme and the results help promote justice and confidence in our tax system. Honest taxpayers need to know there are consequences for those who intentionally violate our country's tax laws."

"Warranty and service abuse is not going to decline as the economy remains difficult," continued Manchi. "Perpetrators are constantly looking for creative ways to commit fraud. There are no rules for people who are intent on committing fraud – however, those who are trying to prevent it are constrained by a multitude of laws, which makes for a very unlevel playing field."

Late last year, AGMA, in conjunction with PricewaterhouseCoopers LLP (PwC), issued a white paper titled “Service Blues: Effectively Managing the Multi-Billion Dollar Threat from Product Warranty and Support Abuse.” A copy of this white paper can be obtained at www.agmaglobal.org.

About AGMA

AGMA is a non-profit organization comprised of influential companies in the technology sector. Incorporated in 2001, AGMA’s mission is to address gray market fraud, parallel imports, counterfeiting, software piracy, and service abuse of technology products around the globe. The organization’s goals are to protect intellectual property and authorized distribution channels, improve customer satisfaction and preserve brand integrity.

AGMA welcomes any technology manufacturer, as well as persons or entities that own or hold intellectual property rights to finished goods outside the technology industry; product and service providers, government and law enforcement who provide goods and/or services to combat gray market fraud, counterfeiting and warranty and service abuse threats. AGMA uses a variety of avenues to cultivate change in the marketplace, including event speaking, educational initiatives, benchmark studies, industry guidelines, and, where appropriate, public policy advocacy. To learn more about AGMA’s initiatives or to become a member, please visit www.agmaglobal.org.

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