

# An Open Discussion with a Convicted Fraudster!



**Sam Antar**



**Gary Zeune, CPA**

# Gary Zeune CPA

Gary Zeune CPA has 40+ years in public accounting, corporate finance, investment banking.

He also has the only speakers bureau in the U.S. for white collar criminals. The Pros & The Cons has been profiled in NY Times, WSJ, LA Times, Forbes and numerous other publications.

Since 1987 more than 20,000 professionals have attended his classes on fraud, ethics and corporate strategy.

He writes extensively and has had more than 20 articles published in national magazines and journals.

[www.TheProsAndTheCons.com](http://www.TheProsAndTheCons.com)

[gzfraud@TheProsAndTheCons.com](mailto:gzfraud@TheProsAndTheCons.com)

614-761-8911



# Sam Antar

Sam Antar is a convicted felon and a former CPA. As the CFO of Crazy Eddie, Mr. Antar helped mastermind one of the largest securities frauds uncovered during the 1980s.

Today, Sam Antar is a forensic accountant. His primary work focuses on identifying and investigating public companies engaged in securities fraud by performing an in-depth (deep-dive) forensic analysis. In addition, he advises law enforcement agencies and professionals about white-collar crime and trains them to catch the crooks. His clients include government agencies, law firms, accounting firms, independent investment research firms, hedge funds, public companies, and other organizations.

[sam@whitecollarfraud.com](mailto:sam@whitecollarfraud.com)  
[www.whitecollarfraud.com](http://www.whitecollarfraud.com)

**INSIDE**

**TOP STORIES**  
International performers sniff out space on Madison Ave. PAGE 3

This year's marathon attracts more runners, more TV PAGE 2

Forget the Dow. Why tax medallions are a hot investment IN THE MARKETS, PAGE 4

Guess it's never too early: Let the 2013 mayoral race begin THE INSIDER, PAGE 8

**BUSINESS LIVES**

**GOT-MAR EGGS**  
Springing insurance which was covered by A 22

ANNE FISHER says the parenting generation is making something of it 81

MONIKA A SARAKIS WAGS Seven legend talks about reform 118

INDECK ON THE WEB Twitter fly in back in the headlines 146

EAL GREENE on a new marketing campaign for a familiar space 158

**INDEX**

MARKET BUSINESS	7
MARKETS	30
REAL ESTATE	31
TECHNOLOGY	32
FOR THE RECORD	34
DELEGATE NEWS	37
REGULATORY WATCH	39
IN THE WEB	36
THE WEEK AHEAD	31

**REPORT REAL ESTATE**  
Deal drought brings brokers era of more work for less pay  
PAGES 13-20

**CRAIN'S**  
NEW YORK BUSINESS

ISSUE 11.1.2013 \$10.00

**Lenox Hill calls end to solo act**

Hospital issues RFP for merger; affiliation: three are interested

BY BARBARA BENSON

AFTER YEARS of struggling financially, Lenox Hill Hospital—one of the last independent in the city—is finally changing its name. It has issued a request for proposals in the hope of acquiring a manager or an affiliate who's not of its own kind, according to four sources with knowledge of the matter.

While Lenox Hill has been open to affiliation since its name change, it has been slow to move forward. A spokeswoman for NYU Langone says the medical center had an obligation to explore all options to resolve the issue.

See 2013 10/13 on Page 12

**Bloomberg aims to lasso BizWeek**

Move part of big push into consumer market

BY MATTHEW FLAMM

REAR VIEWS: BLOOMBERG IS A MAJOR fan of the culture of consumers. Bloomberg LP, the financial news and information company he founded nearly 13 years ago, is not.

That may be about to change. Bloomberg LP's new consumer unit, Bloomberg BusinessWeek, is set to launch in the next few months. The unit will compete with other consumer brands like Time and Newsweek.

For Bloomberg, the acquisition would mark the company's biggest step to date to expand the consumer side of its media empire. It's a goal it has pursued for years.

See Bloomberg LP on Page 20

**HITTING THE RIGHT NOTES**

DESPITE ECONOMIC TROUBLE, the city's major institutions are thriving on a boom in new money pouring in. A smart bet on the VC market is also paying off. Page 1

**ELECTRONIC EDITION**

# Three Elements of Fraud

---

Perpetrators

---

Enablers – Help perpetrators gain implied integrity  
(e.g. Media, Politicians, External Auditors,  
Investment Bankers, Wall Street Research Analysts)

---

Victims

# White-Collar Crime

---

White-collar crime is more brutal than violent crime.

---

The actions of one or a few corrupt public officials and corrupt businessmen can affect the livelihoods of thousands, even millions of people.

---

Fraudsters use a combination of persuasion and deceit to execute their crimes. Unfortunately, most people are unaware of how easy it is for fraudsters prey on their behavioral and cognitive vulnerabilities.

# Who commits white-collar crime?

---

“We’re all capable of committing fraud. Every single person in this room is capable of committing crimes.” --- Joan Pastor, PhD, Clinical Psychologist and Fraud Expert at the Association of Certified Fraud Examiners 22nd Annual Fraud conference in San Diego, CA in 2011

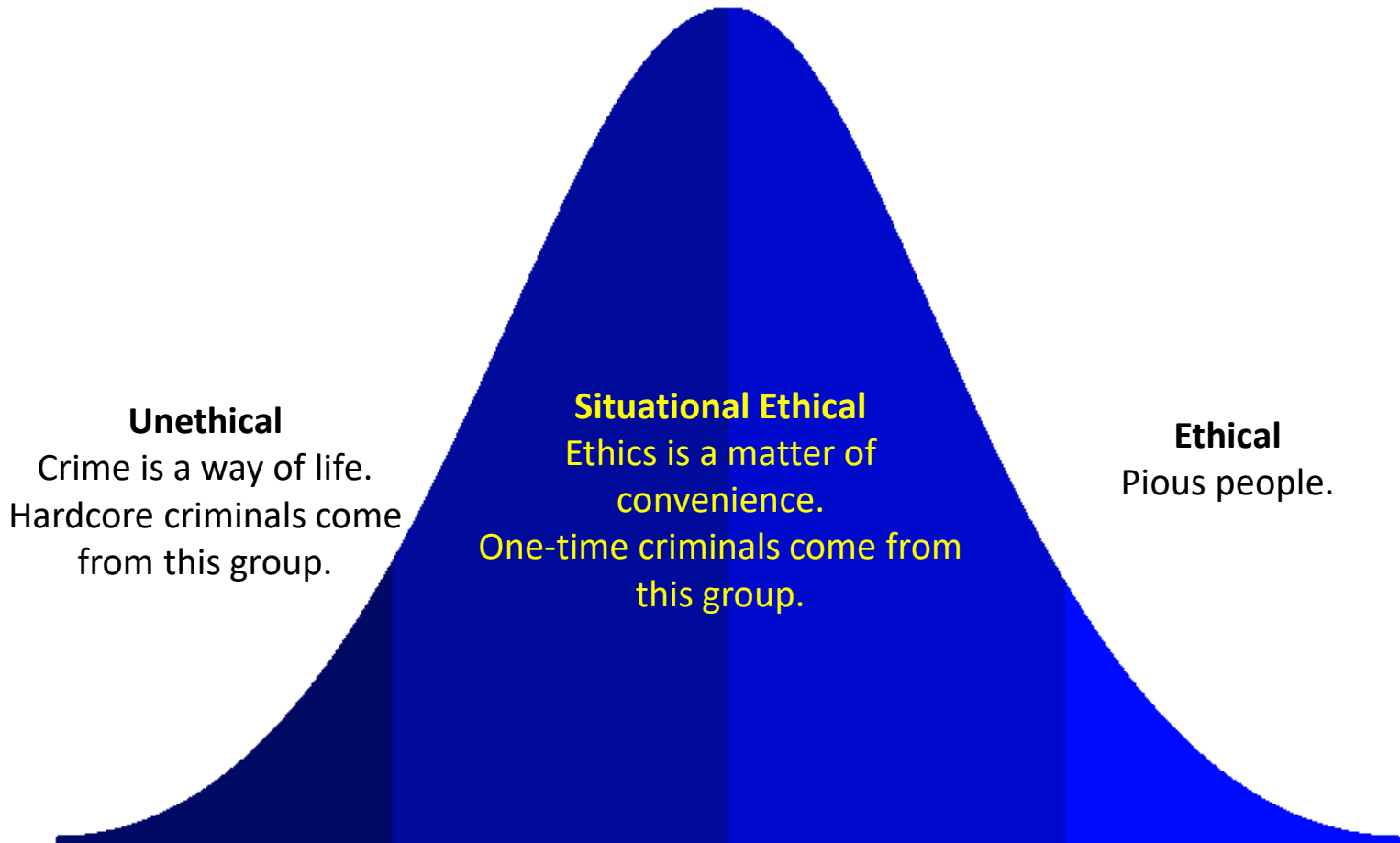
---

Can anyone truthfully claim that they live without any sin and temptation?

---

For all of us, ethics is a matter of convenience depending on the situation and pressures involved.

# Three Population Groups



[This Photo](#) by Unknown Author is licensed under [CC BY-SA](#)

# Techniques: Exploitable Weaknesses

---

White-Collar criminals use a combination of persuasion and deceit to achieve their objectives. Fraudsters prey on the psychological and cognitive vulnerabilities of their victims using the following techniques:

---

White-collar criminals consider your humanity, ethics, needs, desires, morality, and good nature as weaknesses to be exploited in the execution of their crimes.

---

White-collar criminals measure their effectiveness by the comfort level of their victims. They use a combination of charm and deceit to achieve their objectives. It's far easier to get a potential victim to believe your lies, if they like you.

---

White-collar criminals fabricate false integrity to gain the trust of their victims. Stature, generosity, and good deeds gain the respect of their potential victims and make it less likely that victims will question their behavior.



# Techniques: Exploitable Weaknesses

## No Limits

---

White-collar criminals will always have the initiative to commit their crimes.

---

Your ethics, morality, and good nature limit your behavior, but fraudsters have no such constraints on their behavior.

---

The ethical foundation of our society is based on trust and legal basis of our society is based on the presumption of innocence.

---

The inclination to trust and the presumption of innocence gives the fraudster the initial benefit of any doubt while they are free to plan and execute their crimes.

---

Therefore, trusting and decent law abiding human beings are easier prey for fraudsters.

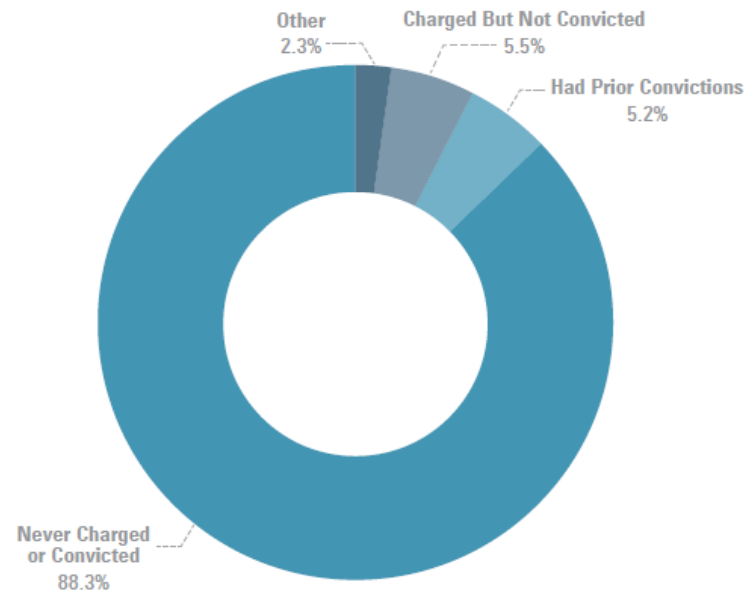
# The Invisible White-Collar Criminal

## Perpetrator's Criminal and Employment History

### Perpetrator's Criminal Background

Only 5.2% of the fraudsters in our study had previously been convicted of a fraud-related offense (see Figure 92). This has been a consistent finding since our first report in 1996; the vast majority of occupational fraudsters have no history of fraud convictions.

**Figure 92:** Criminal Background of Perpetrator



Association of Certified Fraud Examiners: 2016 Report to the Nations on Occupational Fraud and Abuse

# Did Any of The Following Convicted Fraudsters Have a Criminal Record Before They Were Charged?

---

Ken Lay – Enron

---

Bernie Ebbers – Worldcom

---

Dennis Kozlowski – Tyco International

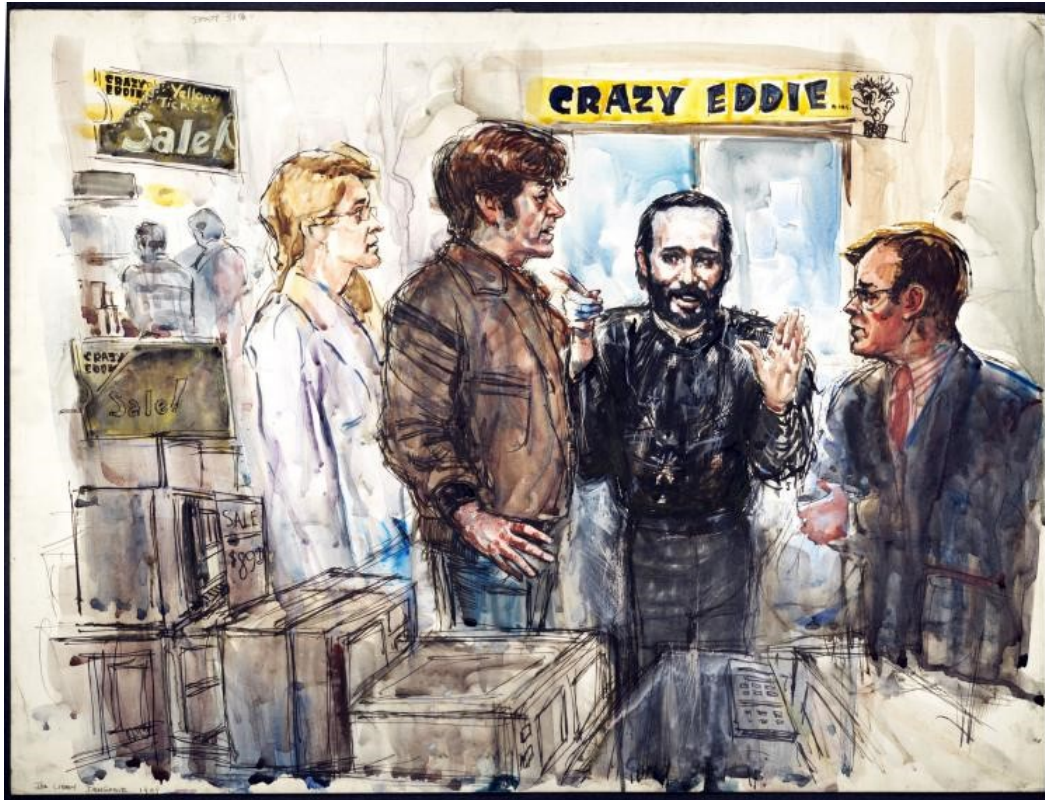
---

Bernie Madoff - Bernard L. Madoff Investment Securities LLC

---

Eddie Antar – Crazy Eddie

# Crazy Eddie



CC BY Image courtesy of The Courtroom Sketches of Ida Libby Dengrove, University of Virginia Law Library

# The Crazy Eddie Culture

---

Eddie Antar skillfully developed a tightly-knit, loyal company culture to insure that our crimes went undetected and unreported.

---

In the early years, a person was required to be a relative, a friend of the family, or a friend of a friend of the family, to work for the company.

---

All key executive and management positions were filled by relatives and friends.

Organized Crime Groups

Common Characteristics

---

Race

---

Religion

---

Ethnicity

# Our Competitive Advantage

---



- High pressure "bait and switch" sales tactics
- Skimming cash to evade income taxes and steal sales taxes.
- Paying employees in cash ("off the books") to reduce its labor costs.

- Crazy Eddie crime spree evolved in three phases:
  - (1) 1969-1979: Skimming and under-reporting income (tax fraud) prior to planning to go public
  - (2) 1980-1984: Gradually reducing skimming to increase profit growth in preparation for the initial public offering, i.e., committing securities fraud by "going legit"
  - (3) 1984-1987: As a public company, overstating income to help insiders sell stock at inflated prices. You get a "bigger bang for the buck" by inflating earnings and overpaying taxes as a public company than you get by understating income and underpaying taxes as a private company.



# Gradual Reduction of Skimming

## *A Securities Fraud by Going Legit*

1980-1984: Gradually reducing skimming each year to increase pro-forma earnings growth in preparation for the initial public offering, i.e., committing securities fraud by “going legit.”

Inflated earnings growth enabled Crazy Eddie to sell shares at a higher price-earnings (PE) ratio.

<b>Effect of Gradual Reduction in Skimming on Reported Income</b>	<b>Fiscal Year Ended 05/31/80</b>	<b>Fiscal Year Ended 05/31/81</b>	<b>Fiscal Year Ended 05/31/82</b>	<b>Fiscal Year Ended 05/31/83</b>	<b>Fiscal Year Ended 05/31/84</b>
Reported Income Before Pension Contribution & Income Taxes	\$1,709,000	\$2,273,000	\$3,404,000	\$4,637,000	\$7,975,000
Skimming, Net of Cash Used to Pay Certain Expenses Such as Payroll	\$3,000,000	\$2,500,000	\$1,500,000	\$750,000	\$0
Adjusted Income Before Pension Contribution & Income Taxes	\$4,709,000	\$4,773,000	\$4,904,000	\$5,387,000	\$7,975,000

# Overstating Profits as a Public Company

- The “Panama Pump” Money Laundering Scheme — Cash skimmed from Crazy Eddie before its initial public offering was laundered back into the company after it went public to inflate revenues and reported profits.
- Fraudulent asset valuations — Overstated inventory assets to inflate reported profits.
- Understated Accounts Payable to Inflate Reported Profits (Accounts Payable Cut-off Fraud) — Inventory that was received by Crazy Eddie before the end of the accounting period was invoiced by suppliers and reflected as shipped to the company in the subsequent accounting period.
- Understated Accounts Payable to Inflate Reported Profits (Debit Memo Fraud) — Crazy Eddie claimed fictitious purchase discounts and trade allowances to understate accounts payable and inflate reported profits.
- Inflated Comparable Store Sales — Crazy Eddie reported bulk sales to non-end users (distributors and other retailers) that originated from its main offices as sales to end user consumers in stores that existed in both the current and period year accounting periods (comparable stores).
- Premature Recognition of Sales to Inflate Revenues, Comparable Store Sales, and Earnings — Crazy Eddie invoiced certain distributors for merchandise and it simultaneously received checks dated before the end of the accounting period. The company shipped the merchandise to the distributors and cashed the checks in the subsequent accounting period.
- Covering up crimes — Subtle changes in accounting policies were used by Crazy Eddie to cover-up certain accounting frauds.

# How We Fooled The Auditors

---

Crazy Eddie's year-end audits were expected to last about eight weeks

---

The auditors planned to complete its field work in roughly equal increments each week during that period.

---

By the sixth week (of eight), auditors expected to have about 75% of its field work completed.

---

We contrived various stalling techniques aimed at slowing down auditors without appearing to stonewall them.

---

Our goal was that by week six PMM would only have 25% of its work completed and have 75% of its work left to finish in the remaining two weeks.

---

To get the audit completed on time and satisfy Crazy Eddie's management, auditors skimped on certain key procedures. This plan worked every year.

# Techniques: Exploitable Weaknesses

When it comes to fraud, the distraction is more important than the lie. Distractions cause people to devote less attention to the fraudster's actions and more attention to areas unrelated to their crimes. Distraction is less risky than lying and more importantly, it reduces the need to lie.

AUGUST 27, 1984

COMPUTERWORLD

SR/19

## SPECIAL REPORT

### **Amazing sales analysis! Insanely accurate inventory!** Operating system helps N.Y.'s Crazy Eddie manage mushrooming electronics chain

**By Sol Rosenberg**  
Special to CW#

NEW YORK — In the midst of a quiet evening watching the tube, the near-silence is jarred by a loud interruption. A man in a Santa Claus suit is on the beach, yelling about a Christmas sale in August. The commercial ends with him waving his fists and shouting, "Crazy Eddie — His prices are insane!"

Crazy Eddie is a household name in the metropolitan New York area. His reputation for zaniness has been fostered by insane, loud TV commercials, along with a policy to beat any advertised price on everything in home electronics. These factors have

led to a system of cooperative payments and budgeting.

#### **21 stores**

Today, Crazy Eddie has 21 stores, with plans to open five more in the next six months. These include 14 Crazy Eddie stores and seven Disco-Mat retail outlets.

The chain's installation is composed of 40 terminals that are hooked up to the Iris-based minicomputer. Nineteen terminals are located in the two-building main headquarters and in the warehouse, and there is one terminal in each of the 21 stores to handle all the inventory and



The computer room at Crazy Eddie's

the point-of-sale functions.

Crazy Eddie uses a comprehensive sales analysis system. The sales anal-

ysis is particularly important, as it allows for analysis by salesman, store, time of day, item and other critical information. The inventory system tracks over 120,000 items in inventory for an accurate first in, first out cost. The accounts payable system works with approximately 2,000 vendors, processing 2,000 to 3,000 invoices a month.

The system uses a Bytronix Corp. B5000 CPU and 1M byte of Bytronix Megamite cache memory. There are 19 terminals that are remotely hooked up over 4,800 bit/sec lines. The telecommunications equipment is leased from AT&T.

# Desperate times, desperate measures

Crazy Eddie was a profitable private company. Frauds focused on understating profits by skimming cash to avoid paying income and sales taxes.

Crazy Eddie was losing money for the first time in almost two decades because of increased competition and a steep decline in consumer electronic prices which reduced our revenues. Frauds focused on understating losses.

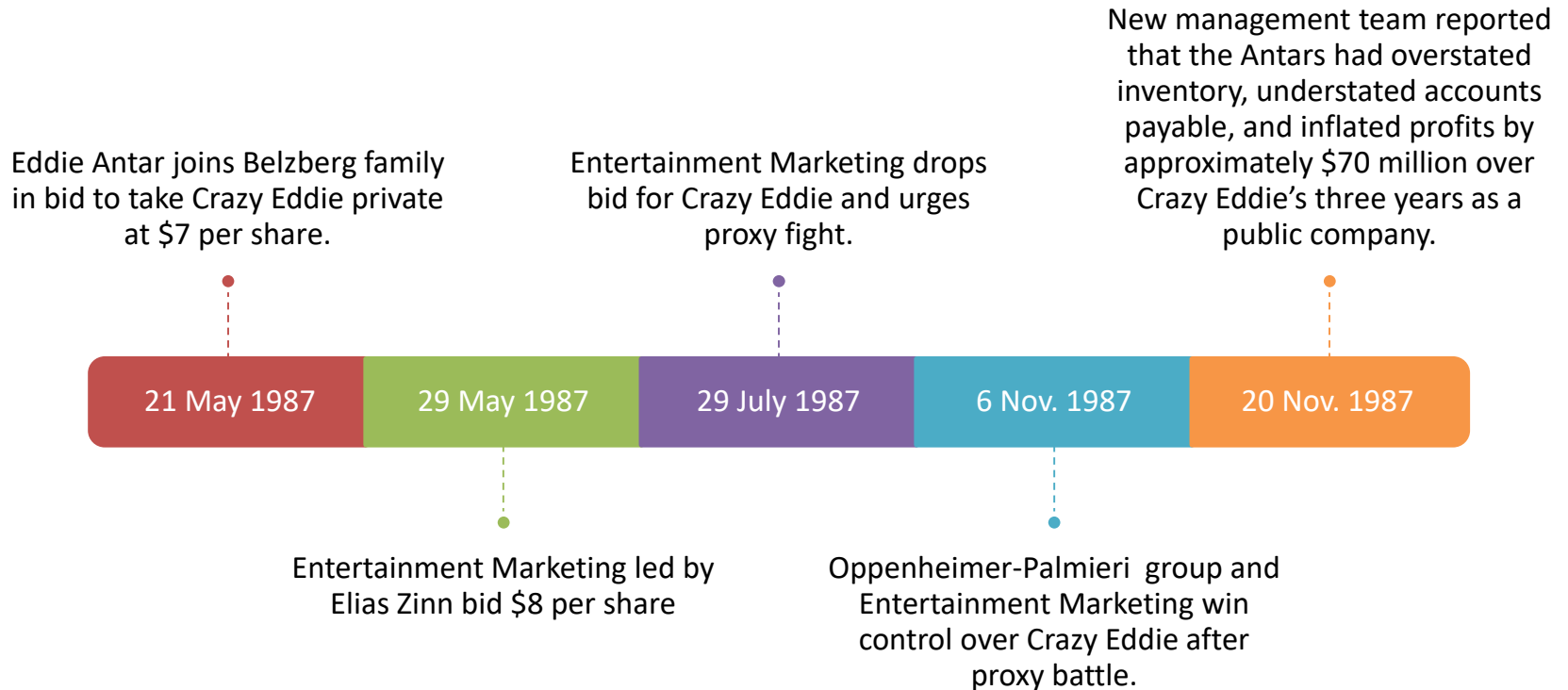
**1984–1986**

**Early 1970's to 1984**

**1987**

From 1984 to 1986: Crazy Eddie was a profitable public company. Frauds focused on inflating profits.

# Fall of Crazy Eddie



# Fall of Crazy Eddie

U.S. Department of Justice  
United States Marshals Service

## WANTED BY U.S. MARSHALS

NOTICE TO ARRESTING AGENCY: Before arrest, validate warrant through National Crime Information Center (NCIC). United States Marshals Service NCIC entry number: (NIC/357508283).

NAME: ANTAR, Eddie  
 ALIAS: STEWART, Alexander; ALEXANDER, Stewart; LEVY, Joseph;  
 LEVY, Yosef; SHLOMO, Ezra Ben; "KELSO"; "CRAZY EDDIE"

DESCRIPTION:

Sex .....	MALE
Race .....	WHITE
Place of Birth .....	BROOKLYN, NEW YORK
Date(s) of Birth .....	DECEMBER 18, 1947
Height .....	5'6"
Weight .....	165 LBS
Eyes .....	BROWN
Hair .....	BROWN
Skintone .....	MEDIUM
Scars, Marks, Tattoos .....	10" VERTICAL SCAR ON ARMOHEN
Social Security Number .....	
NCIC Fingerprint Classification .....	PO 04 03 15 11 17 05 09 15 12




LEFT THUMB PRINT RIGHT THUMB PRINT

WANTED FOR: CRIMINAL CONTEMPT OF COURT  
 Warrant Issued: District of New Jersey  
 Warrant Number: 9050-0228-0111-F  
 DATE WARRANT ISSUED: February 27, 1990

MISCELLANEOUS INFORMATION: ANTAR is a wealthy man and frequent international traveller. ANTAR speaks fluent English, French and possibly Hebrew. He has been described as a heavy drinker. ANTAR may be using an Israeli passport.

If arrested or whereabouts known, notify the local United States Marshals Office, (Telephone: \_\_\_\_\_).  
 If no answer, call United States Marshals Service Communications Center in Arlington, Virginia.  
 Telephone (800) 336-0102; (24 hour telephone contact or (800) 423-0719 (TDD)). NLETS access code is VAU5MOOOO.

Form USM-102  
(Rev. 4/90)

PRIOR EDITIONS ARE OBSOLETE AND NOT TO BE USED.

- 1989: Sam E. Antar starts cooperating with government and lawyers representing victims.
- 1990: Eddie Antar skips town
- 1992: Eddie Antar arrested in Israel
- 1993: Crazy Eddie criminal trial
- 1997: Crazy Eddie civil trial



# Missing Loot?

- Over the weekend, the mastermind of this operation, Eddie Antar, passed away. Most New Yorkers remember Crazy Eddie thanks to its great commercials—his prices are insa-a-a-ne!—but one of the big questions is whether Antar died with any money left after the feds got done with him.
- It seems likely that he did. Back in 1986, Antar donated \$6 million to an Israeli hospital in return for a \$5.4 million cash kickback, according to the Wall Street Journal. According to a blog post by Sam Antar, Crazy Eddie's chief financial officer, the government never was able to account for that kickback money, even as it recovered \$74 million that Antar allegedly stole from investors.
- \$5.4 million was a relatively small part of Antar's fortune but seems quite enough to enjoy a comfortable retirement.
- Source: Crazy Eddie may have died rich, by Aaron Elstein, September 12, 2016



# Red Flags: Inventory Overstatement

Crazy Eddie (in \$000s)	FY 02/28/83	FY 02/29/84	FY 03/03/85	FY 03/02/86	FY 03/01/87
Revenues	\$ 106,095	\$ 134,347	\$ 167,147	\$ 262,268	\$ 352,523
Cost of goods sold	\$ (83,327)	\$ (105,313)	\$ (127,619)	\$ (194,371)	\$ (272,255)
Gross profit	\$ 22,768	\$ 29,034	\$ 39,528	\$ 67,897	\$ 80,268
Inventory	\$ 18,062	\$ 21,964	\$ 26,543	\$ 59,864	\$ 109,072
Days-Sales-Inventory	68.7	69.2	69.2	80.9	112.9

## Crazy Eddie inventory inflation:

\$3 million in 1985, \$10 to \$12 million in 1986, and \$22.5 to \$28 million in 1987

Source: Second set of books maintained by Sam E. Antar

# Red Flags: Accounts Payable Understatement

Crazy Eddie (in \$000s)	FY 02/28/83	FY 02/29/84	FY 03/03/85	FY 03/02/86	FY 03/01/87
Revenues	\$ 106,095	\$ 134,347	\$ 167,147	\$ 262,268	\$ 352,523
Cost of goods sold	\$ (83,327)	\$ (105,313)	\$ (127,619)	\$ (194,371)	\$ (272,255)
Gross profit	\$ 22,768	\$ 29,034	\$ 39,528	\$ 67,897	\$ 80,268

Inventory	\$ 18,062	\$ 21,964	\$ 26,543	\$ 59,864	\$ 109,072
Accounts payable	\$ 13,741	\$ 18,184	\$ 23,077	\$ 51,723	\$ 50,022
Accounts payable/Inventory	76.1%	82.8%	86.9%	86.4%	45.9%
Accounts payable understated				\$3 - \$4 million	\$26 to 29 million

# Red Flags: Compare the Footnotes

**How Crazy Eddie changed one word in footnotes to overstate income by \$20 million**

**Annual Report Fiscal year 1986:**

"Purchase discounts and trade allowances are recognized when *received*."

Discounts and trade allowances were not recognized until a credit memo was received from a vendor even if the discount was earned.

**Annual Report Fiscal year 1987:**

"Purchase discounts and trade allowances are recognized when *earned*."

Crazy Eddie immediately recognized discounts and trade allowances when earned.

Change in policy enabled Crazy Eddie to recognize discounts and trade allowances faster and inflate income by booking \$20 million in fictitious charges to vendors.

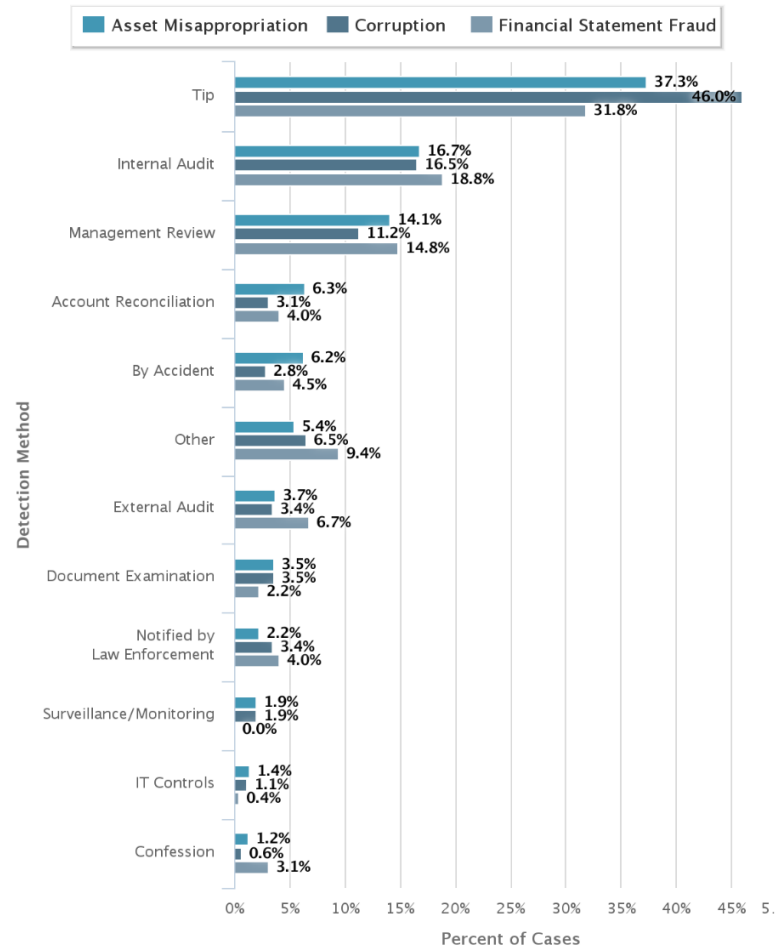
# Phony Debit Memos

02/01/87	1075	ZTI Furniture	1986 Volume Incentive	5,000.00
02/01/87	1085	Universal Security	1986 Volume Incentive	10,000.00
02/02/87	1045	Okidata	1986 Volume Incentive	20,000.00
02/02/87	1112	Maxell	1986 Volume Incentive	83,000.00
02/04/87	1123	Rabbit Systems	1986 Volume Incentive	10,000.00
02/11/87	1078	Coast Mfg.	1986 Volume Incentive	21,000.00
02/12/87	1032	Locband	1986 Volume Incentive	5,000.00
02/12/87	1035	Maxell	1986 Volume Incentive	16,000.00
02/16/87	1043	Nintendo	1986 Volume Incentive	50,000.00
02/16/87	1129	Koss	1986 Volume Incentive	91,000.00
02/17/87	1040	Multitech Monitors	1986 Volume Incentive	25,000.00

- Auditor started examining accounts payable on April 28, 1987, the same day PMM signed off on a clean opinion for fiscal year ended March 1, 1987 financial reports.
- Question: There's a date at the bottom of the page which appears to be 4/28/87. Do you see that?
- PMM staffer: Yes, I do.
- Question: Is that your handwriting.
- PMM staffer: Yes, it is.
- Question: What does that signify?
- PMM staffer: It was my policy to date my workpapers when I began to perform test work.
- Question: So that tells us you started this work on the 28th but it doesn't tell us when you finished it?
- PMM staffer: That is correct.

# Initial Detection of White-Collar Crime

Detection Method by Scheme Type



© 2016 Association of Certified Fraud Examiners, Inc. All rights reserved

Source: Association of Certified Fraud Examiners: 2016 Report to the Nations on Occupational Fraud and Abuse

# Who are the Whistleblowers?

## The Three Exes

1. **Ex-lovers:** Divorced spouses, former girlfriends and boyfriends.
2. **Ex-business associates:** Former customers and vendors
3. **Ex-employees:** Fired employees, laid off employees, and employees who quit working for the entity.

**Beware:** Most whistleblowers are not motivated by altruism. They have axes to grind. They come forward because of their personal agendas.

# Do audits really protect investors?

Firm	2017	2016	2015	2014	2013	2012
Ernst & Young	NA	15/55 = 27%	16/55 = 29%	20/56 = 36%	28/56 = 50%	25/51 = 49%
Pricewaterhouse Coopers	13/55 = 24%	11/53 = 21%	12/53 = 23%	17/57 = 30%	19/57 = 33%	21/52 = 40%
Deloitte & Touch	11/55 = 24%	13/54 = 24%	13/54 = 24%	11/52 = 21%	15/51 = 29%	13/51 = 25%
KPMG	26/52 = 50%	22/51 = 43%	20/52 = 38%	28/51 = 55%	23/48 = 48%	17/48 = 35%
BDO	NA	16/24 = 75%	12/23 = 52%	17/22 = 77%	15/23 = 65%	11/20 = 55%
Grant Thornton	6/34 = 18%	8/34 = 24%	15/34 = 44%	16/34 = 47%	20/36 = 56%	23/34 = 68%



# Blue-Collar vs. White-Collar

---

**As a nation, we devote far more resources fighting blue-collar crime or street crime, than we do battling white-collar crime.**

---

NYC Police Department employs approximately 34,000 cops in uniform battling street (blue collar) crime

---

FBI employs approximately 14,000 special agents

---

IRS Criminal Investigative Division employs approximately 2,300 special agents

---

SEC employs approximately 4,000 people

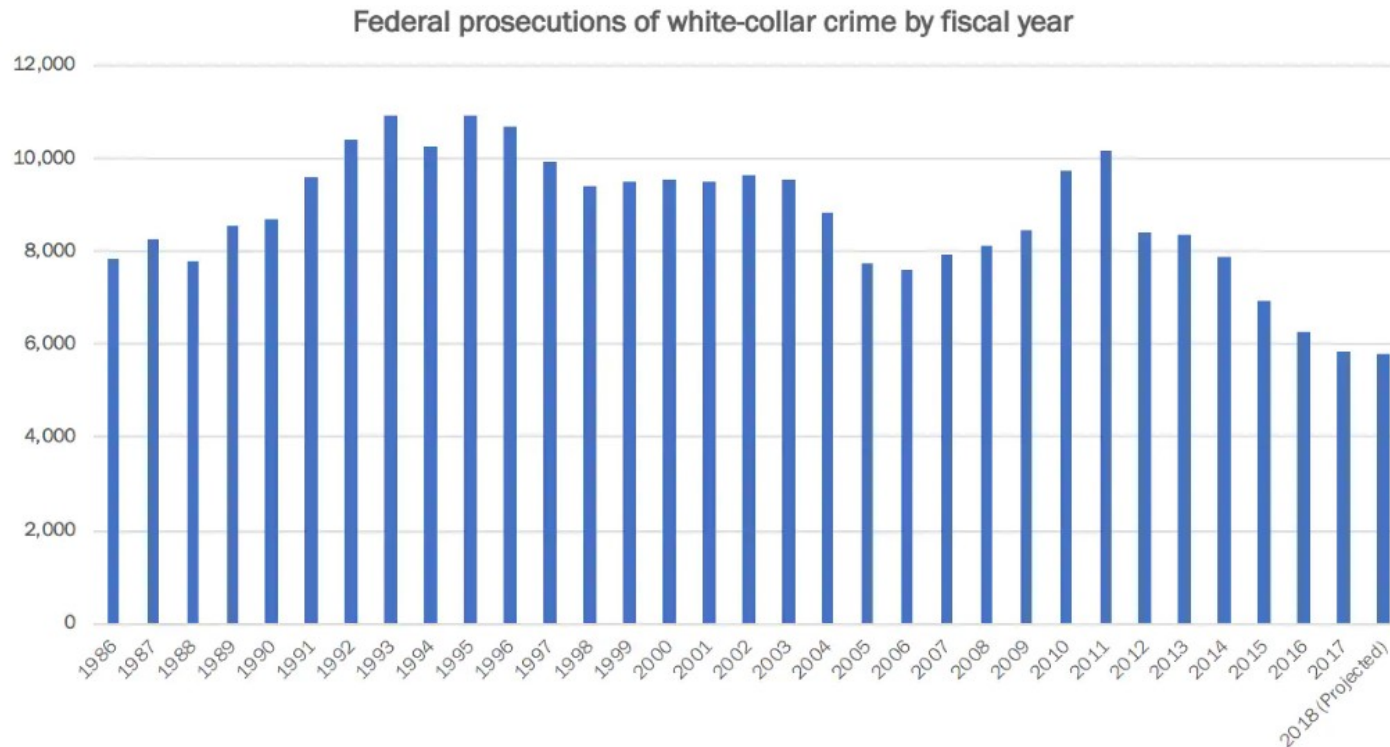
---

US Postal Inspectors Office employs approximately 1,200 criminal investigators

---

“The U.S. government has been massively underinvesting in enforcement and prosecution of white-collar crime.”

Catherine Rampell, Washington Post, August 6, 2018



The latest available Justice Department data show that during the first nine months of fiscal 2018, there were 4,350 new white collar crime prosecutions. If this activity continues at the same pace, the annual total of prosecutions will be 5,800 this fiscal year, compared with 5,825 in fiscal 2017. (Syracuse University’s Transactional Records Access Clearinghouse)