

Inside the Mind of a Hardcore White-Collar Criminal

Sam Antar

whitecollarfraud.com

Bio

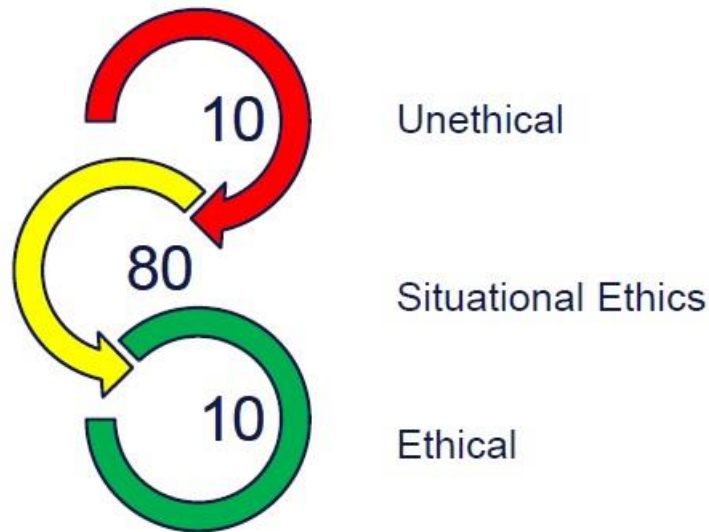
Sam E. Antar is a convicted felon and a former CPA. As the criminal CFO of Crazy Eddie, Mr. Antar helped mastermind one of the largest securities frauds uncovered during the 1980s.

Today, Mr. Antar teaches about white-collar crime for government entities, businesses, professional organizations, and colleges and universities.

He is a forensic accountant who investigates cases involving securities fraud for law firms, research firms, hedge funds, and other clients.

Who Commits White-Collar Crime?

Looking at Ethics



"Trust is a Professional Hazard!" – Jonathan Marks



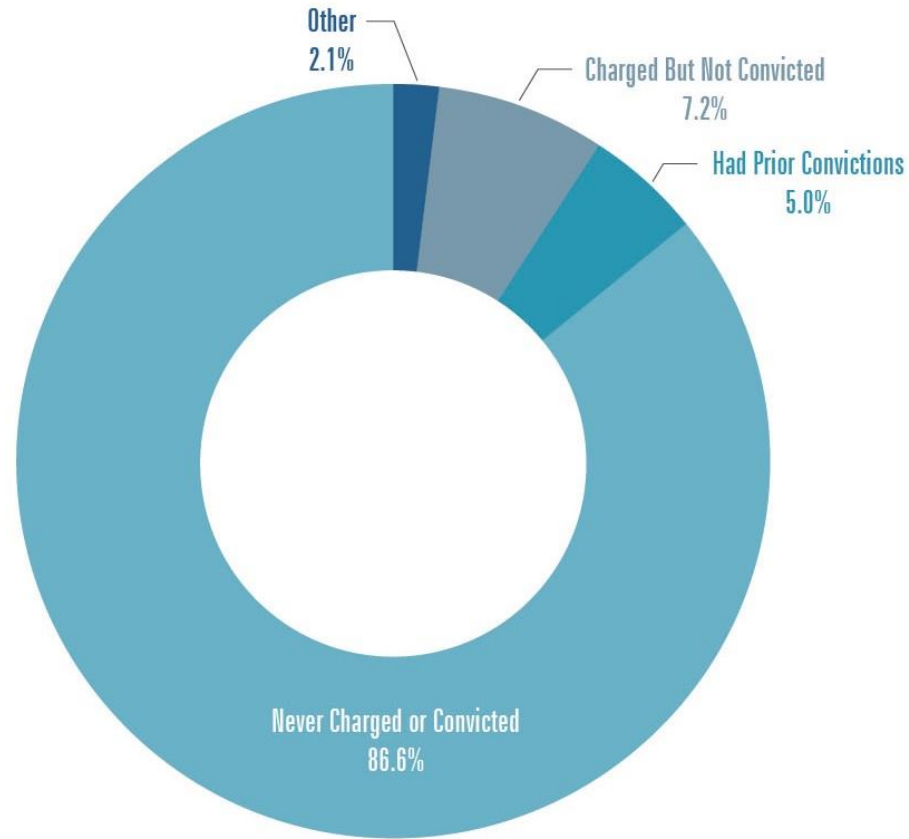
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Techniques: Exploitable Weaknesses

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.

- White-collar criminals consider your humanity, needs, trust, ethics, 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.

The Invisible White-Collar Criminal



Association of Certified Fraud Examiners: 2014 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

False Integrity

- Spoofing Crazy Eddie's advertisements on popular TV shows like "Saturday Night Live" gained us ***implied credibility*** that enabled us to take advantage of our potential victims.
- It legitimized Crazy Eddie as a "discounter.'

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.

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.

Evolution of the Crazy Eddie Fraud

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.

Effect of Gradual Reduction in Skimming on Reported Income	Fiscal Year Ended 05/31/80	Fiscal Year Ended 05/31/81	Fiscal Year Ended 05/31/82	Fiscal Year Ended 05/31/83	Fiscal Year Ended 05/31/84
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

1984-1987: As a public company, overstating income to help insiders dump stock at inflated prices using a variety of fraudulent tricks:

- "The Panama Pump" -- money laundering to increase revenues and reported profits
- Fraudulent asset valuations -- inflating inventory assets to increase reported profits
- Accounts payable cut-off fraud -- decreasing accounts payable liabilities to increase reported profits
- Debit memo fraud -- claimed fictitious purchase discounts and trade allowances
- Financial Disclosures – subtle changes in language

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.

Desperate times, desperate measures

Early 1970's to 1984: Crazy Eddie was a profitable *private* company. Frauds focused on *understating* profits by skimming cash to avoid paying income and sales taxes.

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


1987: 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.

Fall of Crazy Eddie

- **May 21, 1987:** Eddie Antar joins Belzberg family in bid to take Crazy Eddie private at \$7 per share.
- **May 29, 1987:** Entertainment Marketing led by Elias Zinn bid \$8 per share
- **July 29, 1987:** Entertainment Marketing drops bid for Crazy Eddie and urges proxy fight.
- **November 6, 1987:** Oppenheimer-Palmieri group and Entertainment Marketing win control over Crazy Eddie after proxy battle.
- **November 20, 1987:** New management team reported that the Antars had overstated inventory, understated accounts payable, and inflated profits by approximately \$70 million over Crazy Eddie's three years as a public company.

Fall of Crazy Eddie

- 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

 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/_4575089283)

NAME: ANTAR, Eddie
ALIAS: STEWART, Alexander; ALEXANDER, Stewart; LEVY, Joseph;
LEVY, Yosef; SHLONO, 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 ABDOMEN
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 VAUSMOOOO.

PRIOR EDITIONS ARE OBSOLETE AND NOT TO BE USED. Form USM-132 (Rev. 4/90)

Inventory Irregularities

If a company is taking longer periods of sell (turnover its inventory) it is a red flag for possible inventory inflation or future write-downs due to obsolescence

How long does it take a company turnover its inventory?

Days-Sales-Inventory (DSI):

$$\frac{\text{Average Inventory}}{\text{Cost of Sales During Period}} \times \text{Number of Days in Period}$$

Note: Average inventory is total of beginning and ending balances divided by 2

Crazy Eddie Inventory Fraud

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:

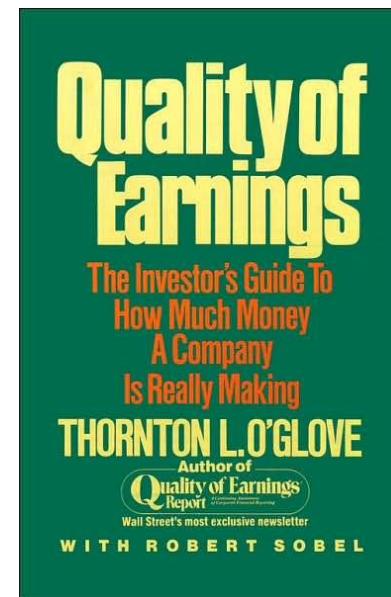
\$3 million in 1985, \$10 to \$12 million in 1986, and \$22.5 to \$28 million in 1987

Source: [Second set of books maintained by Sam E. Antar](#)

Red Flags Spotted, But No One Listened

- And so it was that Mr. O'glove had never met, much less been charmed by, the fast-talking chief of Crazy Eddie. In fall 1986, **he noticed that for the fiscal half ended Aug. 31, Crazy Eddie's sales had risen 41%, while inventories had mushroomed 147%. Previously, sales and inventories had generally moved in unison.**
- "It was obvious to me that the company was having big problems despite other sanguine analyses on Wall Street," he said in a 1987 interview. Mr. O'glove is generally credited with being the first to sense trouble at Crazy Eddie.

Source: Calculated Madness: The Rise and Fall of Crazy Eddie Antar, by Gary Belsky and Phyllis Furman, Crain's New York Business, June 5, 1989)



Nu Skin Enterprises

Nu Skin Enterprises Days-Sales-In-Inventory (DSI)

DSI	QE 03/31	QE 06/30	QE 09/30	QE 12/31
2014	346.4	-	-	-
2013	149.1	145.7	167.3	189.8
2012	144.9	118.7	145.5	131.5
2011	100.8	138.6	137.3	128.6

“Nu Skin may be have to take significant margin reductions to unload its excess inventory and possibly have to recognize a material impairment charge against inventory in a future period.” --- “Do Nu Skin Inventory Red Flags Spell Trouble Ahead?” --- Sam Antar, White-Collar Fraud, July 22, 2014

“Earnings per share for the quarter were \$0.32, versus \$1.22 in the prior-year period and were impacted by (i) a \$50 million write-down of Mainland China inventory.” --- Nu Skin Press Release, August 6, 2014

Finding fraud: 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.

Red Flags Missed by Auditors and Investors

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

Deposition Testimony

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.

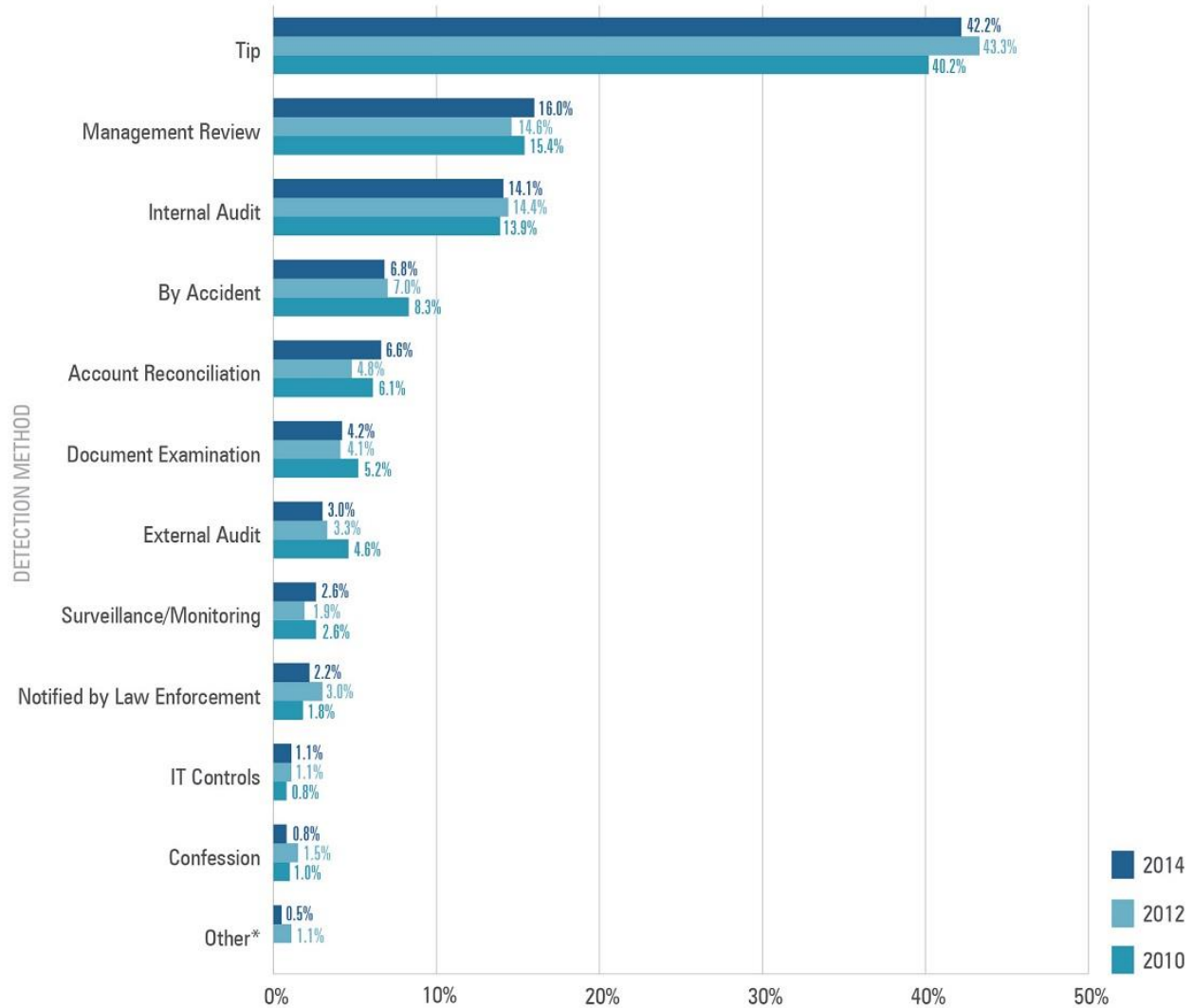
Question: What does that signify?

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.

Figure 11: Initial Detection of Occupational Frauds



Source: Association of Certified Fraud Examiners: 2014 Report to the Nations on Occupational Fraud and Abuse

Who are the Whistleblowers?

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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?

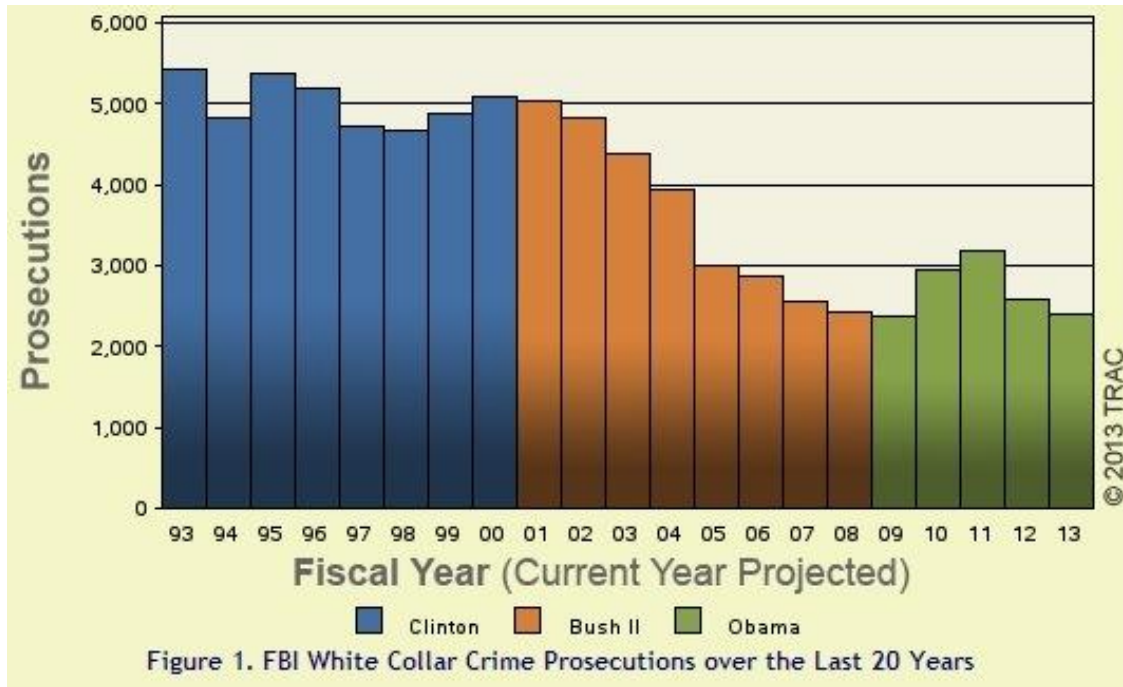
PCAOB

Public Company Accounting Oversight Board

Firm	2014	2013	2012
Ernst & Young	20/56 = 36%	28/56 = 50%	25/51 = 49%
Pricewaterhouse Coopers	17/57 = 30%	19/57 = 33%	21/52 = 40%
Deloitte & Touche	11/52 = 21%	15/51 = 29%	13/51 = 25%
KPMG	NA	23/48 = 48%	17/48 = 35%



Slump in FBI White Collar Crime Prosecutions



Source:

[Transactional Records
Access Clearinghouse
\(TRAC\)](#)

Slump in FBI White Collar Crime Prosecutions

Table 1. FBI White Collar Prosecutions

Number Year-to-date	2,001
Percent Change from previous year	-6.8
Percent Change from 5 years ago	-1.2
Percent Change from 10 years ago	-45.2
Percent Change from 20 years ago	-55.8

Source: [Transactional Records Access Clearinghouse \(TRAC\)](#)

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 13,600 special agents
- IRS Criminal Investigative Division employs approximately 2,600 special agents
- SEC employs approximately 3,958 people
- US Postal Inspectors Office employs approximately 1,500 postal inspectors.

Secret Foreign Bank Accounts

BANK LEUMI LE-ISRAEL B.M. בנק לאומי לישראל בע"מ

NO. 31232/53 FREE: ACCOMMODATION HOTEL TEL AVIV סניף BRANCH

לכבוד ANTAR SAM & ROSE & MITCHELL & DEBORAH & EDDIE & KUI דף מס' PAGE

NO MAIL: 1

THE FOLLOWING IS A STATEMENT OF TRANSACTIONS IN YOUR FOREIGN CURRENCY DEPOSIT ACCOUNTS WITH US PER: על פי פירוט התנועה במקדונותיכם במטבע U.S. \$

16/09/80 הוצג אצלנו ליום: 16/09/80

פרטים PARTICULARS	תנועה TRANSACTION	ריבית נטו במט"ח NET INTEREST	יתרה U.S. \$	תאריך/זמ"ג DUE/DATE
03 DEPOSIT B/F	400,000.00			6/09/80
WITHDRAWAL	100.00	.00		10/06/80
WITHDRAWAL	100.00	.00		10/07/80
WITHDRAWAL	100.00	.00		14/09/80
03 DEPOSIT C/F		10,367.28	2.53	6/12/80
02 DEPOSIT B/F			410,069.01	
01 DEPOSIT B/F			627,743.00	14/10/80
04 DEPOSIT B/F			26,966.81	29/10/80
			400,000.00	29/11/80
יתרת חדר BALANCE			1,464,779.02	

The Renewal Advice is Included In the consolidated statement

Mark Twain

“A man is never more truthful than when he acknowledges himself a liar.”