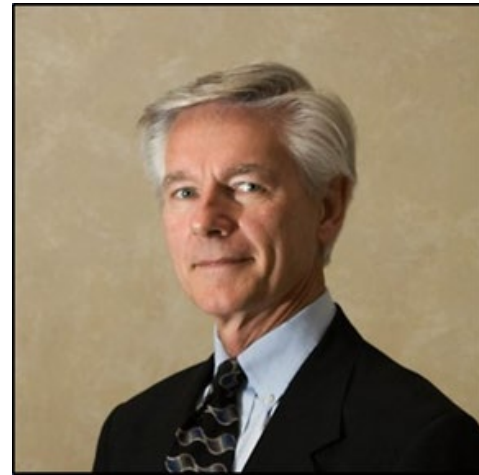


# Inside the Mind of a Criminal Mastermind

**Live Interview with Crazy Eddie Fraudster Sam Antar**



**Sam Antar**



**Gary Zeune**

# Gary Zeune



Gary Zeune has 40+ years in public accounting, internal audit, corporate treasury and finance, and investment banking.

He also has the only speakers bureau in the U.S. for white collar criminals.

Since 1987 more than 50,000 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.

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# Gary Zeune

The Pros & The Cons has been profiled in NY Times, WSJ, LA Times, Forbes and numerous other publications.



- [Scott London, Ex-Auditor From Insider-Trading Scheme, Is Out of Prison, Has a Job](#) - WSJ
- [After Serving Time, Executives Now Serve Up Advice](#) - New York Times
- [Ex-Cons find peace and paycheck on the Burgeoning lecture circuit](#) - WSJ
- [Felons become educators for Business](#) - National Post
- [Fraudsters in Demand as Speakers Amid White-Collar Crackdown - Risk & Compliance](#) - WSJ
- [Prison-Bound KPMG Ex-Partner Remorseful for Insider Tips](#) - WSJ
- [WSJ Special Report - White Collar Criminals for Hire - From the Penitentiary to the Podium](#) - WSJ
- [Confessions of an insider trader on the eve of his prison sentence](#) - WSJ
- [Ever Thought, 'How Did He Get Promoted?' Here's How](#) - WSJ
- [How to Tell If Your Coworkers Are Using Their Manipulative Powers for Good or Evil - At Work](#) - WSJ
- [What Corporate Climbers Can Teach Us](#) - WSJ
- [Financial fraud -- accounting for criminals](#) - By Kevin Voight - CNN
- [Ex-cons tout ethics through corporate speakers bureau](#) - CNN
- [Does your compensation system encourage illegal activity?](#) - White Collar Crime Fighter

# 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.

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Selling insurance which was owned by AIG

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**CRAZY LIKE A FOX**  
Guess who's tipping off the SEC on alleged accounting frauds? None other than the guy who cooked the books at Crazy Eddie  
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DESPITE ECONOMIC TROUBLES, the city's major arts institutions are attracting more patrons and are more successful. A smart bet for NYC  
Feature by the author Page 1

**ELECTRONIC EDITION**

# Internal Audit Procedure

- Assistant Manager Internal Audit
- Fortune 500 Company
- 19,000 employees at 1 plant
- DoD auditors onsite
- Cost+ government contracts
- Plant tour
- ID tags
- 2 fixed asset systems
- Random sample from each system
- Findings
- LESSON \_\_\_\_\_



# Three Elements of Fraud

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Perpetrators

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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 Bell Curve Image](#) 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.

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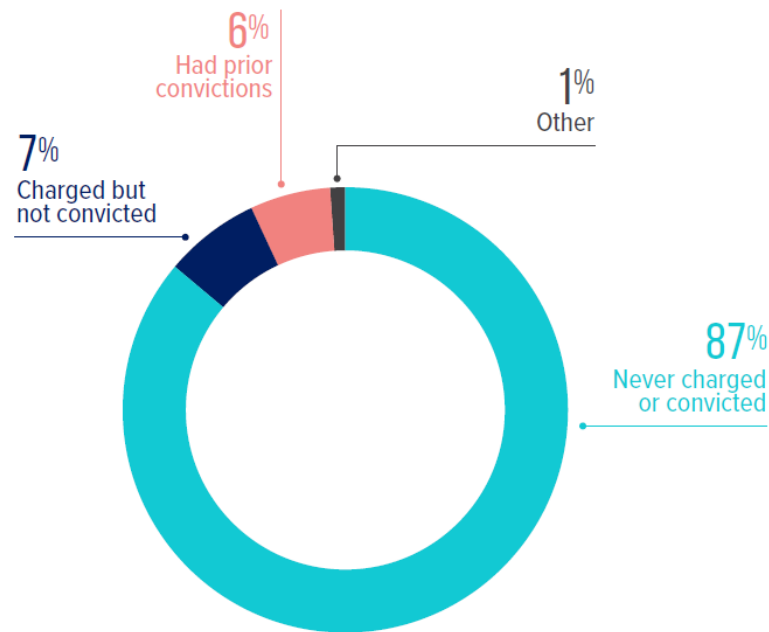
Therefore, trusting and decent law-abiding human beings are easier prey for fraudsters.

# The Invisible White-Collar Criminal

## PERPETRATOR'S CRIMINAL BACKGROUND

Only 6% of perpetrators in our study had a prior fraud-related conviction, which is consistent with our findings in previous studies. It is worth noting, however, that 42% of cases in our study were not reported to law enforcement (see Response to Fraud infographic, page 63), which is also consistent with prior findings. Because so many frauds go unreported, it is very likely that the true number of repeat offenders is higher than the 6% who have prior convictions.

FIG. 42 DO PERPETRATORS TEND TO HAVE PRIOR FRAUD CONVICTIONS?



Association of Certified Fraud Examiners: [2022 Report to the Nations on Occupational Fraud and Abuse](#), page 57.

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

---

Sam Bankman- Fried - FTX

---

Ken Lay – Enron

---

Bernie Ebbers – WorldCom

---

Dennis Kozlowski – Tyco International

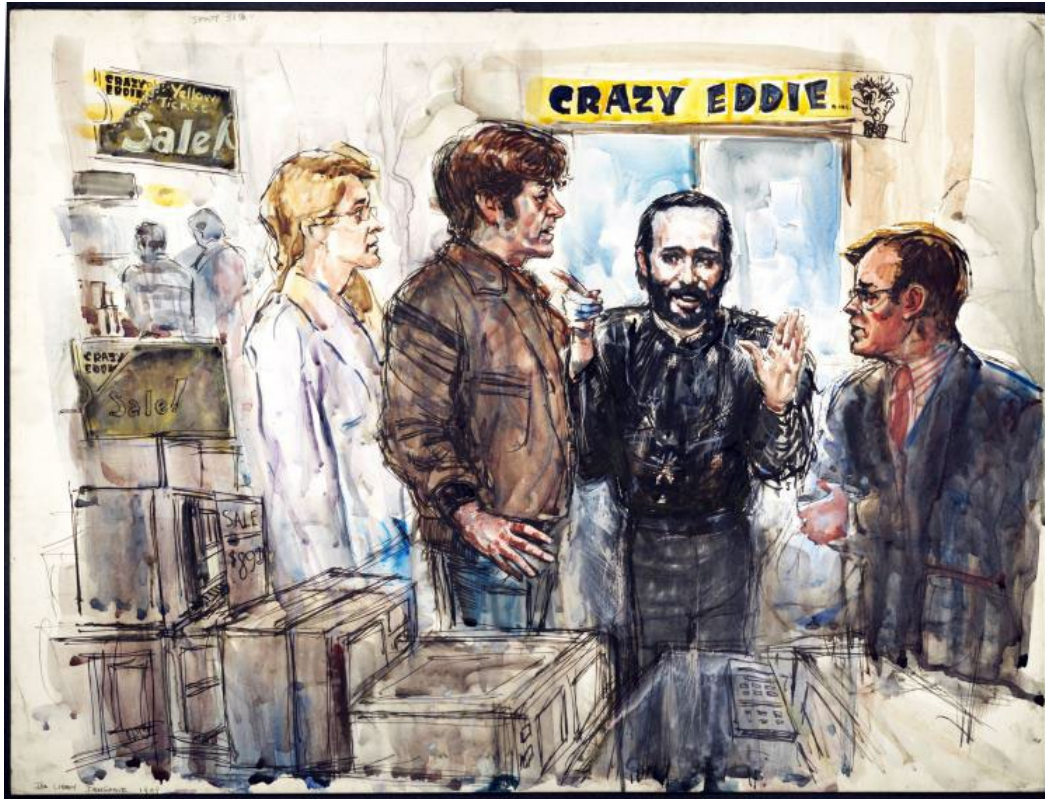
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Bernie Madoff - Bernard L. Madoff Investment Securities LLC

---

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

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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

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- 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.

# 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.

<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

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

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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 effective 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

sion, for accurate 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.

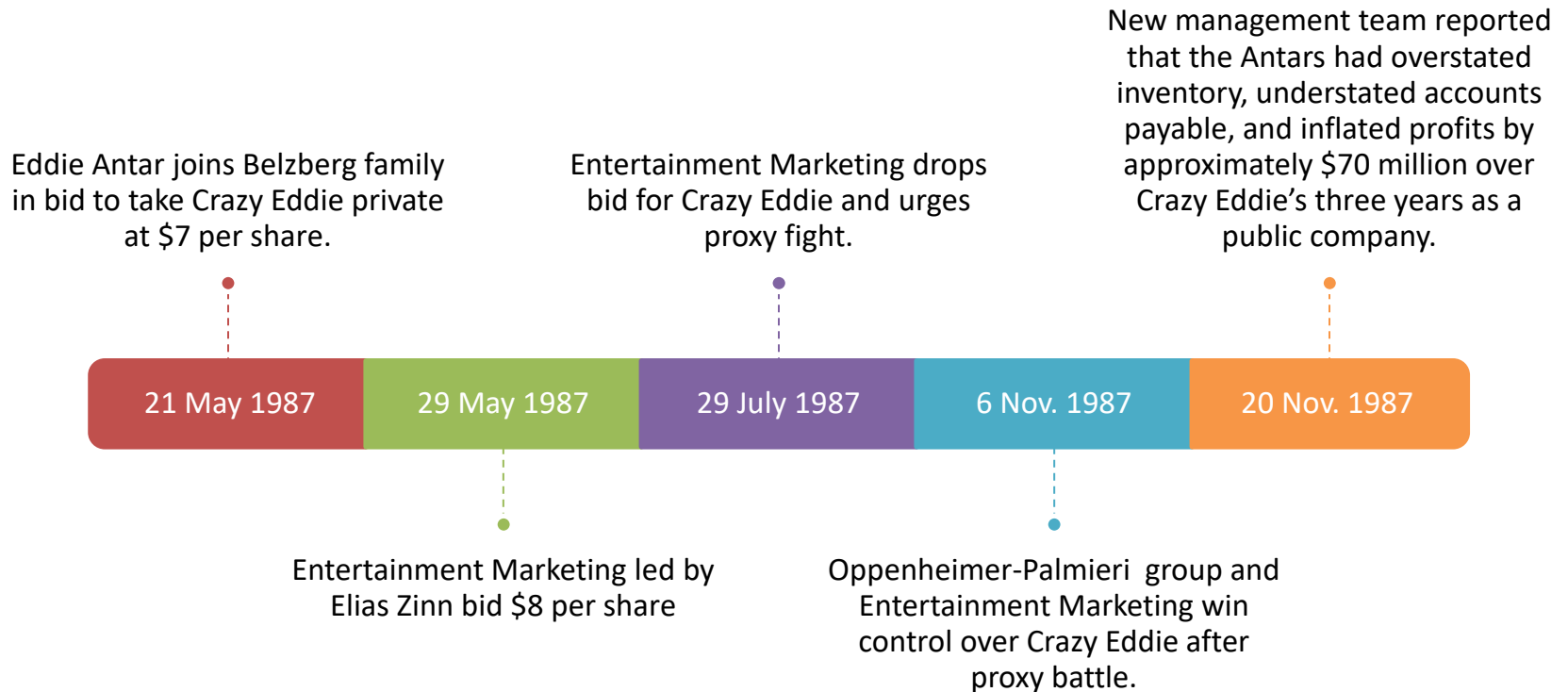
**1984–1986**

**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/357308283).

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 ARMBOWEN
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 traveler. ANTAR speaks fluent English, French and possibly Hebrew. He has been described as a heavy drinker. ANTAR may be using an Israeli passport.

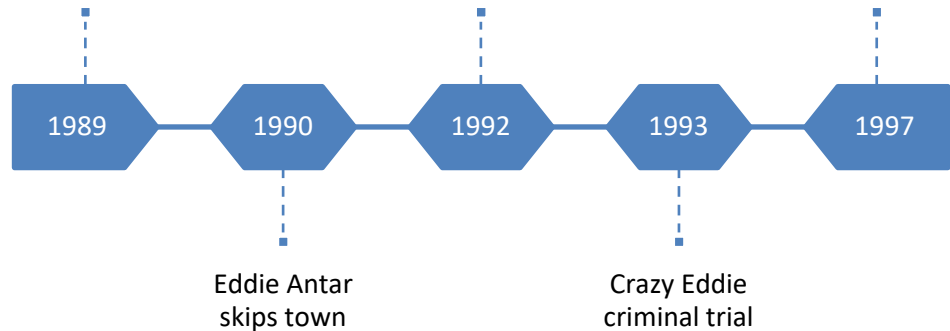
If arrested or whereabouts known, notify the local United States Marshals Office, (Telephone: \_\_\_\_\_).  
If no answer, call United States Marshals Service Communications Center in Arlington, Virginia.  
Telephone (800) 336-0102; (24 hour telephone contact or (800) 423-0719 (TDD)). NLETS access code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

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

Sam E. Antar starts cooperating with government and lawyers representing victims.

Eddie Antar arrested in Israel

Crazy Eddie civil trial



# 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

# 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.

# Initial Detection of White-Collar Crime

FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

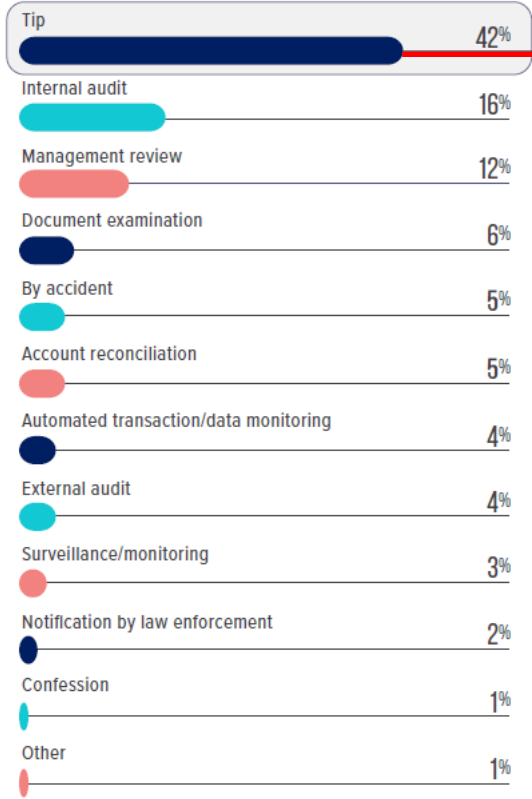
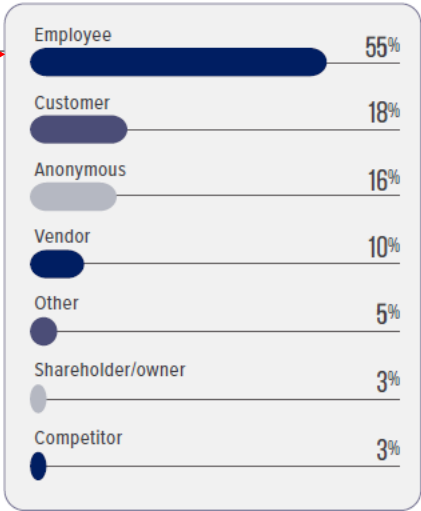


FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



Source: Association of Certified Fraud Examiners: [2022 Report to the Nations on Occupational Fraud and Abuse](#), page 22.

# 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?

“Audit deficiencies rose in 2022. In a concerning trend, the percentage of audit engagements reviewed that are expected to be included in Part I.A of an inspection report is higher in 2022, in nearly all firm categories, than in 2021. PCAOB staff expects approximately 40% of the audits reviewed will have one or more Part I.A deficiencies, up from 34% in 2021 and 29% in 2020.”



Source: Public Company Accounting Oversight Review Board, Staff Update and Preview of 2022 Inspection Observations, July 2023

# Blue-Collar vs. White-Collar

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

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

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FBI employs approximately 14,000 special agents

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IRS Criminal Investigative Division employs approximately 2,300 special agents

---

SEC employs approximately 4,000 people

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US Postal Inspectors Office employs approximately 1,200 criminal investigators

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# Federal Prosecutions for White-Collar Crimes

