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John Gill: Welcome to this edition of *Fraud Talk*, the ACFE Fraud podcast. I'm John Gill, Chief Training Officer for the ACFE. My guest today is Gary Weiss. Gary has a new book that came out in late August, early September of 2022 called *Retail Gangster: The Insane, Real-Life Story of Crazy Eddie*. I buy a lot books from Amazon. Actually, we have a fraud library here in Austin, Texas at the ACFE's headquarters. I have alerts from everywhere looking for books on fraud, especially new ones. When this popped up, I was excited and I pre-ordered it, and when I got my copy, I was really excited to go through it and also enjoyed the pictures in here.

Now, there's some great ones that Gary has. Actually, on the day I got it, I was reading through it and I thought, "This is a great book. I am enjoying this." I reached out to Gary. He had his website listed in the book, contacted him, and said, "I'm having a ball reading this. Would you be interested in doing a podcast with me about it?" He kindly wrote back that very day and said that he would.

Crazy Eddie, if you have not heard of him before, very quickly, we'll obviously talk about him a lot more as we go through this, but I'm familiar with Crazy Eddie because one of our early self-study courses, and this was back when the format was a 50-minute video and then a workbook on various topics, we did one on how to detect and prevent financial statement fraud.

The featured case in that video and workbook was Crazy Eddie Antar. We had done an interview with his cousin, Sam E. Antar. Everybody called him Sammy for obvious reasons. Our founder, Dr. Joseph T. Wells, he did a video interview with him, we made that part of the video on the Crazy Eddie story and it was extremely fascinating. Then later, Dr. Wells wrote a book called *Frankenstein's of Fraud*. It had some of the best fraud cases of the 20th century and Crazy Eddie's was one of those cases.

That's how I was familiar with the case. Always found it to be one of my favorites. He committed fraud through the 70s and 80s, and eventually went to justice in the 90s. A lot of people, say a bit younger bent, look at some of these older cases like, "Oh, that case is too old to be relevant," but I argue we would be wrong on that. I think understanding the history of fraud is important in understanding what goes on today.

As Joe Wells has said before, it's variations on a theme. If you can go back and you can study these early frauds, it's still the same types of things occurring, and there's still a lot of lessons to be learned. If nothing else, it's just important to understand the history and there are a lot of regulations, there are a lot of laws, there are a lot of changes in the way things are done that are the result of these cases.

I think it's important if you were serious about being a fraud examiner detecting and preventing fraud, to be familiar with these really historic cases, because they really did change the profession as we know it. That's my introduction, to introduce Gary, he's the guest, and let him speak. Talking about the fact that it was an older case, I know later in the book you talk about, you also hooked up with Sam E. Antar and talked to him because he responded to a blog post that you had. Is that what gave you the idea for doing this book? Where did the idea come from?

Gary Weiss: As you say it-- First, I want to thank you for having me on this podcast. I'm really looking forward to talking to you. This is one of the great fraud podcasts, and you guys know about fraud, and you're going to be able to really hold me to account on this. Sam contacted me because I had written about a particular CEO, a guy named Patrick Burn, and his high jinks and his shenanigans. He was harassing everybody who didn't like his company. He became pretty notorious for that. Nowadays he's known mainly for these election conspiracy theories, but back then, he was known mainly for his management, so to speak, of overstock.com.

Anyway, he reached out to me and he put out a comment on my blog, a blog that I was doing at the time, which didn't quite get to go through for technical reasons. Anyway, I used his comment as a blog post, and he was sarcastic, he was attacking Patrick Burn. Then I got to know Sam and I got to know the Crazy Eddie fraud. I met him, I talked to him. I was vaguely-- I grew up in New York and I was familiar with Crazy Eddie but I was not really that intimately aware of Crazy Eddie, but I got to know Sam and I got to look through his writings on fraud and particularly on accounting fraud. I learned a great deal about it and I got to know the Crazy Eddie story.

Now, that was long time ago. That was my guy that about 15 years ago. Over the years, I got to think about doing a book, but I was hampered by the fact that, boy, it was one hell of a story. It was like a big story. It wasn't just a fraud story. It was also a story of a successful company that engaged in a successful marketing. Also, there was the cultural aspect. Oh my God, this company was all over the Eastern seaboard. It had a national reputation for its salesmanship, mainly because of the guy who was the front man for Crazy Eddie, who was not Eddie, but a fellow named **[unintelligible 00:07:08]** Jerry Carroll, who did their commercials, "Our prices are insane."

It became well known everywhere. It was such a big and unwieldy story. It was like writing about an octopus with various tentacles. It took a while, I did a couple other books in the interim and it took me a while to get my hands around it. I finally did, two years ago, and this book is the result of that. Hell of a story, most difficult story I've ever had to deal with though. I don't mean to complain, but that was my observation, but I think it was worth it.

John: There's a lot to unpack as you're going through it. I was most familiar because we had focus primarily on the financial statement part of it and in our teachings. I was very interested to learn that they were engaging in fraud from the very start. That was something that I had not been that familiar with. Again, Gary said, if you go on YouTube and put in Crazy Eddie commercials, there's several commercials on there. If you've never seen one, it is worth doing that. That was their claim in fame. You document the history of that, but it was brilliant.

People loved to hate the Crazy Eddie commercials and they would come on with Jerry Carroll, who is the spokesperson screaming, "We will not be undersold, our prices are insane," and it became a cultural phenomenon and people loved it and they would come in and they would buy consumer electronics. From the start, they were engaging in some of your typical schemes of bait switch, where people would come in and they would see the ad for one product and they would try and talk them out of that to get a product where they might have-- or more on the product margins.

Gary: Exactly. Pretty much the entire operation was permeated with fraud, which is not to say that everybody who worked there was a fraud star, that's absolutely not true. The marketing people were pretty much clean, I'd say the salesman, although they engaged in practices, they were a little questionable but they were basically legitimate. They were selling legitimate product. Just a little bit under the surface from the very beginning, there was fraud, fraud, fraud. Very example, the logo of Crazy Eddie that he started using sometime in late 70s was this crazy-looking guy and it was all over the place. It was on his stock certificates, it was in his commercials, it was on his business cards, it was everything, it was iconic. It was like an image, a logo, I guess, a trademark, a service mark of a crazy man.

Well, he stole that. Eddie stole that from a cartoonist named Robert Crumb, or Crumb, who was well known in the '60s for his famous cartoon, *Fritz The Cat*. It became a movie, and he did cartoons. He stole that from Crumb, and Crumb didn't know it. Crumb knew about it, but Crumb didn't give permission for him. You can't just steal a logo. I can't steal your logo, whatever. He just stole the logo and didn't pay him a penny, didn't ask him.

It was that kind of thing throughout. Eddie stole from everybody he came into contact with. The closer you were to Eddie, the more likely it was that he was going to cheat you or steal from you. There's a little anecdote I have in the book about this guy named Newman, Gerald Newman, who carried out consulting work for Eddie, to make him go public. He carried out consulting work for Eddie. He had a handshake agreement, big mistake. You don't have a handshake agreement with Eddie. No, no.

They had a handshake agreement. Eddie didn't pay him a penny. Newman sued, lost, because there's this thing in the law, they call it the statute of frauds. Over a certain amount of money, it's got to be committed into writing. On the basis of that, it was thrown out. He didn't pay him a penny. He sued, he appealed, he lost. This is an example of the way Eddie treated people.

Ultimately, it led to his downfall, but he was engaged in all manner of fraud. I get into the warranty fraud, there were frauds over the warranties. There was fraud-- Phony warranty claims were a money-maker for Eddie. Insurance fraud was a moneymaker. Called it spiking the claim. As you mentioned earlier, there was a blatant bait and switch. People come in for one kind of product and they walk away with another product. Eddie advertised, and he had all the big names, Sony, Panasonic, Bose, blah, blah, blah.

Advertised that, but once you get into his store, you find that he wasn't that anxious to sell you a Sony. Now you'd think that he'd want to sell you a high-price Sony, but no, the Sonys didn't give him much of a profit margin, so he'd switch you to a Sharp and, look, hey, he wants you to save money. He wants you to a cheaper product. What he didn't tell you was that the Sharp or the lower price product gave him a higher profit margin, and that's bait and switch, but it didn't smell like bait and switch to the customer because he wants you to go to a lower price margin.

He was everything, and, of course, he stole from his wife. He cheated his wife, he treated his wife abysmally, and everybody.

John: Yes. We'll get into that. That was a interesting story. You do explain how he could have such insanely low prices. One of the ways, he collected the sales tax, but he didn't forward it onto the taxing authorities.

Gary: Oh, sure. Yes. That gave him really a built-in sort of-- It gave him some wiggle room there in setting his prices. Because he was collecting taxes, but not turning them into the government, he was able to undercut his competitors if they weren't engaged in that exact same practice. Most of them weren't. He was able, from the beginning, to sometimes sell even under-cost because he was taking them, and therefore he was able to have these big advertised specials in which he was able to sell for under cost because of the fact that he collected the sales tax, which I think at the time was 7%. This gave him an automatic profit margin.

John: Oh, I've got a quote I'd like to read. The insurance fraud was also interesting to me because some of these were older buildings and, yes, they had not unexpectedly a pipe would break, or the roof would leak and there would be water damage. What was funny to me is, well, as soon as, let's say, the basement filled with water, they were bringing boxes full of products from other stores and dumping them down in the water so that they could claim the losses on their insurance.

I thought, yes, any way to gain the system, they were open for it. That was funny. It was like, well, if he had a water leak, why not take advantage of that? Let's get some of this merchandise that we can't sell, we'll put it down. There's like, well, if it wasn't enough water still left, they would get a hose out and they would hose it down. Here's a quote I like from the book, it says, "Eddie had limits when it came to insurance fraud. He never started a fire in one of his stores, never faked a robbery, or sabotaged his own plumbing."

Some would remember how furious Eddie was when he learned about a fire that occurred in one of the other stores. It's like, he didn't torch the place. What got him mad was not that the plant burned down, but that his partner hadn't insured it for fire damage. They missed out on spiking enhanced windfall. Its like, well, if it had burned down, they could have claimed all this extra merchandising and insurance proceeds, but it didn't take out any insurance coverage on it.

It was interesting to me that that was his line. It's like, "Well I'm not going to break the pipe on purpose, that would be wrong," but if the pipe happens to break, then he saw nothing wrong with throwing all the merchandise he could possibly fit in the basement down in the basement to collect on the covers. It's such an odd line to me that he seemed to take pride that he-- "Well, I didn't commit insurance fraud really, because I didn't break the pipe, I just happened to-- a few extra boxes fell in, huh, so be it."

Gary: Yes. They used to call it spiking the claim. You got a claim, let's make the most of it. In fact, he used to keep water-locked merchandise that he had previously submitted for claims. He used to keep them in a special warehouse, and then he'd throw them out. Not only would he bring poor-selling merchandise and dump it in the basement if there was a flood or whatever, but he'd take a merchandise that he previously had submitted for claims that were these moldy boxes and he dumped the moldy boxes in.

He had a crooked insurance adjuster working with him. You really need an insurance adjuster in those types of commercial claim. He had his crooked insurance adjuster who he paid under the table and who would, in turn, pay the other guy under the table. He was never caught for that. In fact, what seemed remarkable about Eddie is that he wasn't caught for the majority of the crimes that he committed. Not for the insurance fraud, which was blatant. The warrant of claims were part of his initial criminal complaint, so it was kind, but it was not big.

He was never really caught up short for the warranty claims. The sales tax fraud was really significant. It was a big, big money maker. Back in the '70s, when he was doing this, he started to do this by '70s and '80s, it was so much crime going on in New York City of all kinds, that it just was part of the background noise of crime in New York at the time. That's one of the reasons he was able to get away with it. That, and I think the fact that he didn't, as you point out, he didn't deliberately rob his own stores or create conditions, he just took advantage of them.

He didn't go overboard with this insurance fraud, which I think was less a question of morality than one of, perhaps, risk. He wasn't willing to take quite that amount of risk. If he had a legitimate broken pipe, perhaps he felt-- Again, I don't know the exact reason, but I assume that perhaps it was, in his case-- I don't think it was morality, I don't believe he had any, I think it was risk on his part probably.

John: He was too afraid they could tell if he had broken the pipe himself, because then they're like, "Well, that's more serious." As part of doing business, they just assume, well, people are going to pad their claims or spike their claims, and it's just the cost of doing business, and we bill that into the premiums. If you go the extra step and burn your store down or try and break a pipe for fake water damage, then they'd take that more seriously, and it was more likely to involve the police.

It's not a line of morality, it was more of, he thought, well, if I went that far, they would probably call the cops on me and I would get caught.

Gary: Yes. Well, particularly if it's something like arson, you have to hire an arsonist and it might not-- The fire inspectors, even in those days, were pretty serious fire inspectors. They were incorruptible, the fire inspectors in New York City. I think they might have been able to find out that it was arson.

True, there was widespread arson in the South Bronx at the time, half the South Bronx was burned down, and very few prosecutions, but perhaps he felt, "Look, I don't want to go that far. I don't want to have to hire an arsonist, bring people in who were not in the family to carry out these crimes." His feeling was that he kept everything within the family and trusted subordinates. That was his strategy for getting away with it, and he almost did get away with it really.

John: Real quick on the warranty fraud just for people who were listening. There were several things. The one that I remember the most that you had highlighted was the fact that somebody would bring in a VCR, it was out of warranty and they say, "Sorry, there's nothing we can do about it's out of warranty," but they would take it. Then they would fake the documentation to show-- or changed the sales date. Then they would submit it to the manufacturer for repairs or reimbursement and they would just keep that. The customer was out of luck but they got reimbursement for warranty claims that they kept.

Gary: Sure, sure. Also, they would put in for work that was not done. Even in legitimate, they would spike their warranty claims. One of the people involved in warranty fraud, the head of warranty fraud for a time at Crazy Eddie, the majority of the claims that he put in were phony claims. It was a big thing at Crazy Eddie, a big thing.

John: They were making a lot of money through all these schemes and they kept opening stores and opening stores. One thing that they were doing, which comes into play later is they were skimming a lot of that money and they were moving it overseas. It was the **[unintelligible 00:22:12]**

Gary: Yes. That's cash skim.

John: Right. Most of it was going to overseas banks or this particular bank in Israel, correct?

Gary: Right.

John: I've forgotten the amount. At one point, I think it got up to about like 50 million, 53 million or something that was over there, or maybe wronging number, but they were moving a lot of money overseas so they wouldn't have to pay taxes on it. What was interesting is they then got to a point where now they needed money because they had fled so much out of the company that somebody said, "If you just go public and have an initial public offering, an IPO, you could make lots of money."

They thought that sounded like a great idea but then when they started, Sam E. Antar, that we've been talking about, he was the CFO of the company. He went and got an accounting degree and took the CPA exam because Eddie had asked him to. It was a very family-run business.

Gary: He worked for Crazy Eddie's auditors as a matter of fact. They're early auditors for his accounting training but **[unintelligible 00:23:38]** that was really interesting. They were skimming the money like a lot of merchants do. Skimming money, putting it in a safe deposit box. They put it in-- I think you start hide it originally in the ceiling panels of their houses and in radiators and in mattresses and other traditional hiding places for cash.

Over time, they started sending into accounts in Israel. They liked Israel. They enjoy traveling there. They take a little trip to Israel and deposited at Bank Leumi in Tel Aviv. Before they went public, Sammy, their young nerdy, accounting, maven, he said to them, "Look, we got all this money overseas. You're saving in taxes, but look you can use this money, but you're saving in taxes, but you're shooting yourself in the foot because all the money that you're taking out is reducing your profits. Now, look, if you want to go public--" This was the '80s when the IPO grades was just heating up.

He said, "Look, if you want to go public, what you want to do is you want to make it seem if you've got increasing profits. What I suggest you do is take this money that we got sitting out there in Israel and start--" What you want to do is you want to reduce the amount of money that you take out of the company and reduce it in such a way to make it seem that, "Whoa, our profits are really increasing," because they're taking less and less money out of the company.

It worked because, you look at these balance sheets, you look at these operating statements in the prospect, and say, "Whoa, it was really good. This was a great company." If they had not done that, if they were not manipulating their cash take out of the company, they would've had a fairly mediocre record of sales and profit increases. It wouldn't have looked that great if they hadn't been doing this.

I'm not sure they would've been able to go public at all or if they had been able to go public, it probably would've been with some schlocky penny stock outfit and not with Oppenheimer and Company, which was, and I guess still is, to the extent that it still exists, it was a very prestigious investment bank. Then they had all this money, but nevertheless, they were taking less out of the company but they still had a lot of money in Israel and in other places. Over time, they found a use for that too.

John: I thought that was so odd that, in order to go public, they had to stop stealing so much so that it would actually look profitable because they'd taken so much if you looked at it. The company didn't look very good at all but when you saw the actual sales, like you said, it wasn't too bad. I remember they had a pretty good plan on that because they couldn't just stop all at once because like, "Wait, one quarter the sales are minimal and now all of a sudden they're so high and they're bringing so much revenue."

They had to slowly do this so that it wouldn't look so odd and it would look like they're just making money each month or each quarter. They finally got to a point where they decided that the books looked good enough that they might pass muster if somebody looked at them. That's when they started looking at Oppenheimer. They had some really first-class people involved with this, law firms, the underwriter Oppenheimer.

They had a big eight at the time or big whatever. They had a well-known, I guess the forerunner of KPMG, KMG main was their audit firm. What really surprised me is that, with this talent that was looking at their information, trying to decide if they were going to sponsor this public offering, how did they miss all of this?

Gary: You know what it is really. It's the assumption that people make. It's usually a valid assumption that when they're dealing with a company, that the company may be cutting corners, may not be 100% truthful, but isn't just out-and-out crooks. Now, this is the same assumption. It's usually a valid assumption. If you assume that everybody you deal with might be a complete crook, that's paranoid.

Wait a second, that looks to me their profit's doing well. They obviously are a Ponzi scheme. No, no, no. Most cases, 90% of the time, you're dealing with CEOs who are basically honest. Maybe not basically honest, they aren't-- or at least not felons. They're not going to go to prison someday.

Madoff benefited from that generally correct assumption and so did Antar before him. You assume that the person that you're dealing with, that the people you're dealing with are not dishonest. Look, at the time, Eddie's company fell into a certain category of company that was very fashionable at the time. There was, for instance, Manny Moe and Jack, the auto parts chain that was very popular. It was viewed like a real working man's-- It was viewed as a company that was a little rough around the edges, just like Manny Moe and Jack, and some of these other working-class type companies, a little rough around the edges, but basically profitable companies.

They benefited from that, and the auditors coming by, these were the Ivy league. The guys who did the due diligence, they were Ivy leaguers, they weren't acquainted with these Brooklyn guys, and they were charmed and suckered by these guys. They never assumed, look, these guys are just complete felons, they're lying to me. They never assumed that. Look, if I was one of those auditors, I don't think I've necessarily assumed that the profits were ginned up by manipulation of cash skim. I don't think I would've assumed that, and most people wouldn't.

John: That's a good point. One of the tenets of our profession, especially in audit profession that we try and teach is this idea of professional skepticism. You're right, for an ordinary human being, your first reaction is to trust people, and you don't assume that if they hand you a set of financials that everything on here is fraudulent. You think, they probably inflated inventory slightly, or maybe they played fast and loose with timing of the sales. You don't go into it thinking everything on this sheet is somehow manufactured, which in Crazy Eddie's case, that actually was the case.

Virtually, every line item on that financial statement was fraudulent. All of those numbers were incorrect. One of the lessons that I take from Crazy-- Also, I did an interview recently with a guy named Barry Minkow, who the ZZZZ Best fraud story was in his team. He started carpet cleaning business, he went public, and it was the same thing. It was all of the numbers were fraudulent, but no one looking at it thought-- put it this way, everyone thought no one would do that.

Gary: Oh, sure.

John: It was just the blightness of it, I think, caught everybody off guard because no one does that. No one would be brave enough or stupid enough to just fraudulently inflate everything on your statements. I love some of the inventory stories because, obviously, that's a large part of their worth is all the electronic equipment that they had. I remember some stories from the interview that we did with Sammy about they're counting one warehouse, they find out where they were going, where did they want to go tomorrow, and then overnight, they would just take all the merchandise from warehouse one, move it to the second warehouse and count it all over again.

You tell a story about they were watching the auditors on-site counting the merchandise and they had all their notes and papers and they would lock them up when they went home and they noticed they hid the key in a box of paperclips. They would go in and take the key, unlock, see what the auditors had counted, and again, then start moving the merchandise around so that they would count it a second time.

Gary: The amount of fraud was really quite extraordinary. For instance, as we were talking about the decrease in the **[unintelligible 00:34:07]** and how that inflated the fraud. Between 1981 and 1982, profits increased 2%. Now that would really not have gotten them a very good IPO. They inflated that number to 48% by manipulating the **[unintelligible 00:34:28]**. Obviously, I think the majority of people, looking at this 48% numbers, maybe the real number is 40%, but not 2%.

John: Another lesson here is I think for people when they're doing fraud awareness training, there were people who participated in this but had no fraudulent motive whatsoever. There were numerous stories about where he would call up one of his suppliers and say, "Hey, we need the merchandise now, but can you wait and bill us next month?" They would do it like, "Okay, we do that as a friend," not realizing that that was going towards committing financial statement fraud.

There were people within the company that had worked there a long time, and it was a family atmosphere. Eddie would say, "We just need to bump up these numbers, can you pad this a little bit?" They would do it because Eddie had asked them to do.

Gary: Yes, loyalty. They didn't necessarily understand that increasing the value of the inventories would increase their profits. This is not a terribly esoteric accounting principle, but lay people don't necessarily understand that, and that's one of the reasons he was able to get away with it. I describe how there was there were two warehouse managers both named Dave. There's the honest Dave that I describe, and the dishonest Dave. The dishonest Dave was involved in some other scam that they were involved in. In fact, I believe he was the one who was involved in the warranty fraud.

The dishonest Dave, he participated in this fraud not knowing why, inflating the warehouses not knowing exactly why. The honest Dave, for pretty much the same reason, he was asked, he was loyal. They both probably didn't entirely understand, "Why did Eddie want me to inflate these inventories? What is there about having the, okay, it's better to have more stuff in your warehouse than less? Why did he want me to do this?"

Of course, Eddie was desperate to increase his profits because after he went public and after the fraud started to grow and grow, it came obvious to him, and obvious to everybody, that you really need to commit more and more fraud as you go on because, otherwise, everything will just collapse. It's a little bit like a Ponzi scheme, to that extent. You just can't just let bygones be bygones if you are a public company, because people will notice if you stop committing fraud, then everything just collapses, as eventually.

John: I didn't mark, but somewhere you had a line like, fraud is a beast that has to continually be fed. That was the problem that they had was that you can't just stop, you have to-- In fact, one of them on the back end was, it was going down. They were thinking we need to go private and buy back the stock because we'll never-- that's the only way they could see to get out from under this.

Then that led to all types of other problems because there were other family members that owned stock that didn't want to get involved with this. Then Wall Street was getting rumors that he was selling stock because then he was getting paranoid. It really did spiral out of control there at the end. You'd mentioned his wife, that was something that actually stuck with me.

It wasn't just defrauding the investors, defrauding the state, defrauding insurance companies, he really pulled a number on his first wife, to the point where I thought that was one of the worst things the man did. Both his wife and his girlfriend were named Debbie. I thought it was interesting, you labeled Debbie one, Debbie two. He's living off with Debbie two, and Debbie one's saying she doesn't want to have-- not going to put up with this. She wants a divorce. He brings her all these papers, tells her to sign them, and tells her that, "Oh, well, this is just some preliminary papers. The judge will look through everything and the judge will give you your fair share," but what she actually signed said that she got nothing.

Gary: He completely cheated her in the divorce and lied to her. The closer you were, as I mentioned earlier, the closer that you were to Eddie, the more likely it was you'd be completely swindled. That's the way it was with his wife, the mother of his five daughters. He promised her the moon, in effect, and gave her basically nothing.

He had her sign a Separation Agreement, which, in New York, basically sets the terms of your divorce. He said, "Well, this is just an--" She claims never to have read it. She probably didn't. "You should go ahead and sign this, sign this, sign this." So she signed it. She came away with nothing. She fought that in the courts. She won in the courts after it all collapsed. She was still fighting to get through 2021, just a year ago, because she never collected the penny. Even though she won in the courts, she never collected a penny.

He just never paid her and other co-defendants never paid her. She never collected a penny.

John: Then as things did get really bad, he threw everybody else under the bus and tried to blame anything that was going wrong on the other family members, Sammy Antar, his cousins blamed him for everything. It did start to collapse. The FBI and the SEC both started looking more closely into it. They both opened investigations. It was becoming clear that the end was in sight. Eddie, instead of facing the music, he decided he's going to cut and run and so forth. What did Eddie do when the heat got turned up?

Gary: Well, as soon as he realized that things were turning sour here, the fraud was really increasing, he was spiraling out of control, and he couldn't get his hands over the fraud, started putting his money-- He put all of his assets, he transferred-- he already had assets in Israel, and he transferred all of his money to Israel. This is actually before he fled. He made some trips to Israel. He became a citizen of Israel. Then he created-- he got, through nefarious means, he got phony passports, phony identities. Then he made one of his aliases.

A phony identity, a non-existent person with a phony Brazilian passport. He made one of his alter ego, his non-existent alter egos. Posing as that person, he became a citizen of Israel, he became a citizen of Israel under his real name, which was legitimate under a phony name, which is absolutely not legitimate at all. When the Israelis found out-- and that was a big mistake. When the Israelis found out, they were furious.

Ordinarily, the Israelis took a laissez-faire attitude. They were really not that anxious to turn over immigrants back to their countries of origin, even if they're criminals. That was the problem when Meyer Lansky immigrated to Israel, the major racketeer from the 1930s. He emigrated to Israel in the 1970s. Israel was loath to turn him over to the United States. Oh, they eventually did. He was an embarrassment.

Well, Eddie had violated Israeli law in a big way. They were anxious to get rid of him. They did eventually. Eddie fought, but after about a year he had to go back to the United States and face the music.

John: They did track him down with the help of American authorities and found him and got him extradited.

Gary: He established accounts throughout the world, including one in Switzerland. He assumed, incorrectly, that the Swiss bank authorities would do just like in the movies, that they would never turn over any information to the US firm. Perish the thought, well, that wasn't quite correct. The Swiss authorities did cooperate. As a result of Eddie making a serious but very common mistake among fugitives, he used his real birthdate in one of his phony accounts that he set up. He was discovered. His identity, his location in Israel was quickly ascertained. Then he was arrested.

John: Then he came back and they had a jury trial. He was found guilty on all the counts. Maybe you think, "Uh-huh, the justice is served. He got a pretty stiff sentence." I forgot what it was, and you think, well, it would be the end of it but, no, they appealed the verdict. Amazingly, it was overturned on appeal. After the appeal, he was set free, because the judge had made some comments during sentencing that the defense argued, made it sound like he had already made up his mind early in the trial that Eddie was guilty. I was a little surprised.

I've read all the trial briefs, but just what you have here, and what I remember, the comment was, certainly, I would not have taken it that way. It was more that-- he was saying, well, the judge said that he was looking at the property and that he wanted-- since Eddie was guilty, that from the start, he wanted to make sure that, since Eddie was guilty, that the money would go to the victims and the people that deserved it.

The appellate court took that to mean, oh, well, he'd already made up his mind. Before the trial, he was guilty. So it was released. I felt that was certainly a shock to people when that happened. I think he realized that when he saw all of the evidence that the prosecutors had presented at trial, that it was not going to come out differently. It was overturned based on a technicality and a fact. He pleaded guilty the second time but he did get a little bit of a reduced sentence.

Gary: Well, he ended up spending seven years in prison, which is-- that's not a slap on the wrist.

John: Insignificant but--

Gary: It was significant. He pleaded guilty. He cut a deal with prosecutors. He pleaded guilty to one count of racketeering, of RICO conspiracy. He, in fact, admitted all the stuff that he'd been lying about. He was giving interviews while he was in prison in Israel, and after he was convicted, in which he told the elaborate lies. Since he pleaded guilty, he finally admitted to the truth of the allegations that everybody had been making against him for years.

You have to admit, if he hadn't pleaded guilty, he would never have admitted to any of that stuff, and he did. After he pleaded guilty, and after he finally spent a period of time in prison, seven years total, from the time he was apprehended, in 1992, he was released in '99, he never gave any interviews in which he claimed to be innocent. At that point, it was a little ridiculous. He never did it. Not that that would have necessarily prevented him from making a stupid claim like that. After that--

John: It would have at least made you feel a little better if, at some point, he actually did feel some regret some sorrow for what he did. He went to his grave, I think, saying it, "Yes, I pleaded guilty, but I still don't think I did anything wrong." There was certainly may have called back at any point where he apologized. Again, like you said, he fought the lawsuit with his ex-wife and he blamed all the people like Sam.

Sammy, the cousin who was the CFO, really did go above and beyond in cooperating with the prosecutors, and the prosecutors and the FBI all gave statements at his sentencing hearing talking about he was extremely thorough. Just tons of cooperation, which is rare. He has, I think, really tried. You always wonder why fraudsters want to talk about their frauds, and I think it's a combination some of them like to brag about what they did because they feel like, "Look how smart I was, I was able to get away with this." I do think that's a little bit with Sammy. However, there is I think a genuine-- When he speaks to groups, he is really trying to say, look, I'm embarrassed and sorry for what I did. I'm trying to, through my presentations, warn people that this can happen under the right circumstances. You do have to be skeptical. You do have to look at what's going on and just assume that everything could be fraudulent.

Having spent two years studying Crazy Eddie and his family and all the different frauds. Having some time to let that gel, again, our audience, people who are looking for fraud within their organizations, they're looking for fraud in financial statements that file government filings, what are some of the lessons that you feel you learned and that you could share with our audience about what you learned from working on the Crazy Eddie case?

Gary: One of the lessons I learned in terms of the character of the people of Eddie and of actually of his co-conspirators, it's just an observation, I don't think it would help too much in terms of covering fraud, but Eddie was a very poor chess player is the way I would describe it. He couldn't think two or three steps ahead. He was impulsive. For instance, going public turned out to be the worst mistake of their lives because since they went public, it never dawned them that by going public, they were exposing them to being taken over, and if they were taken over, the fraud would be exposed. It was completely foreseeable, and that's exactly what happened.

I would say that in terms of looking at it from the standpoint of the professional auditor or fraud examiner, as you say, you have to sometimes try to think the unthinkable. You see this really amazing increase in profits. Like I say, it was 48% between '81 and '82, but it wasn't, it was actually 3%. When you see amazing numbers, think the unthinkable. What could they have done to cause this?

Now I'm not saying that it was necessarily possible for people to uncover the skim that caused the 3% to go to 48%. Thinking the unthinkable might have put you a little bit closer to that answer. To uncover Eddie and his scams would've required really deep knowledge of his mindset and the way he thought. That would only have been possible if you got to know not so much the culture but if you got to know him and his family, and it would've required--

I'm not really sure necessarily that an investigation of Eddie would've necessarily uncovered much. He was a high school dropout. He worked in Times Square. He worked in some sleazy places ripping golf customers in Times Square. How do you find that out? Generally speaking, the only way you find out something like that is through informants. Of course, there'd be no reason for an informant to come forward if you're an investigator.

Getting to know the people as best you can, getting to know them not as friends but as targets is what you really need if you find yourself confronted with numbers that are just too good to be true. That's was the tipoff really with Eddie, he had numbers that were too good to be true, 48%. Look at the industry as a whole. They weren't getting anywhere near that 48%.

It requires thinking the unthinkable and viewing your subject as a target. Maybe being a little paranoid, that's okay. Because it was only the paranoid people who ultimately uncovered Madoff, nobody uncovered Antar. I will say that the Barron's in an article on the initial red herring did a very, very good job, but they didn't write about fraud. They were just looking at what was disclosed in the red herring was really strange, but it didn't really speak of fraud.

It spoke of some very strange stuff going on for that. They disclosed just a medical school on the island of St. Lucia that wasn't really doing all that well. There was a lot of smoke. There was no fire. It requires examining, being not just almost skeptical, but adversarial. Even so, there's an excellent chance you're not going to find what you're looking to. Without being adversarial, without being ultra skeptical, there's never, you will never be able to uncover fraud. You might just not even bother Eddie. The Crazy Eddies will just slide right on by.

John: Gary, I've always said, I appreciate your spending your time. Did enjoy the book it and a great story. I do think the lessons are relevant and it's hard to believe that all the things that they were able to do and get away with and how long they were able to do it. It's very fascinating.

Gary: Thank you very much for having me on. I appreciate it very much.

John: Good luck with the book, and I hope to have you back as a guest again another time.

Gary: I'd love to do it. Thanks again for talking to us.

John: Thank you. Thanks to our listeners. Hope you've enjoyed this edition of *Fraud Talk* the podcast for the ACFE. Again, this has been John Gill and Gary Weiss, and thank you very much for your time.

[00:56:23] [END OF AUDIO]