

WHITECOLLARFRAUD

Advice about White-Collar Crime

From a white-collar criminal

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6/26/2012

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Advice about White-Collar Crime

The main pillar of our capitalist free market economic system, which is a cornerstone of our democracy, is the integrity of financial information. Without reliable financial information, capitalism cannot survive. The integrity of financial information can only be achieved through building blocks such as sound internal controls and independently verifiable financial information. The educated, skilled, and experienced certified internal auditor or certified public accountant is the first line of defense for the capitalist system.

Do not trust, just verify. Verify, verify, and verify.

White collar criminals use a combination of charm and deceit to achieve their objectives.

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

White collar criminals measure their effectiveness by the comfort level of their victims.

White collar criminals build a wall of false integrity around them to gain the trust of their victims.

White collar crime can be more brutal than violent crime, since white collar crime imposes a collective harm on society.

No criminal finds morality and stops committing crime simply because another criminal went to jail.

On August 17, 2009, I testified before the New Jersey State Assembly Republican Policy Committee as an expert witness during their hearings on political corruption and white collar crime and advised them that:

White collar crime is more brutal than violent crime. The actions of one or a few corrupt public officials and corrupt businessmen affect the livelihoods of thousands of people. Treat them with the same disdain as we do treat serial killers because white collar criminals are economic predators. We are serial economic predators.

Simply said, white collar criminals continue committing their crimes until they are caught.

Understanding White Collar Criminal Behavior

According to various studies conducted by the Association of Certified Examiners, approximately 95% of white collar criminals have no previous criminal record. In fact, the higher the monetary value of the economic crime, the less likely it is that the perpetrator will have a previous criminal record.

White collar criminals know that people live on the hope of a better financial future. The white collar criminal's job is to feed people's hope with their spin and lies.

Initially, the white collar criminals attempt to build a wall of false integrity around them to gain the trust of their victims. They showcase their good deeds, such as giving money to charity and helping the poor and needy, in order to help build a public perception of integrity. For example, as the criminal CFO of Crazy Eddie, I walked old ladies across the street and gave huge sums of money to charity, while having no empathy whatsoever for the victims of my crimes.

White collar criminals measure their effectiveness by the comfort level of their victims. Those false perceptions of integrity that criminals build around themselves help to mask their criminal intents by increasing the comfort level of their victims, and corroding skepticism of the criminal's actions.

The white collar criminal always has the initiative to commit their crimes. They have no respect for society and their victims. White collar criminals consider your humanity as a weakness to be exploited in the execution of their crimes. By your humanity, I mean your ethics, your morals, and our great laws that create the presumption of innocence until proven guilty. Your trust, your morality, your ethics, and our great legal system limit your behavior, while giving white collar criminals freedom to commit their crimes and obstruct justice.

Trust is a professional hazard that will destroy the careers of journalists, Wall Street analysts, auditors, and criminal investigators. For example, during the cold war, President Regan used to say about his dealings with the Soviets, "Trust, but verify." The inclination to initially trust and later verify, gives white collar criminals a major advantage over their victims. While you initially trust white collar criminals, they work on ways to solidify your trust before you verify.

The white collar criminal hopes that you will never verify. Even if you do verify, your skepticism of the criminal's deceptive answers may be corroded your comfort level. In other words, you will accept the criminal's deceptive answers as factual.

In any case, as the criminal CFO of Crazy Eddie, I learned that most journalists, Wall Street analysts, investors, and auditors did not know how to ask proper questions, who to ask the proper questions to, how to handle my deceptive answers, and how to ask appropriate follow up questions.

No criminal finds morality and stops committing crime simply because another criminal went to jail

Many people mistakenly believe that strong punishment such as long prison sentences is a deterrent to crime. Recently, many white collar criminals have received very stiff sentences, which I firmly support. However, strong punishment is not a material deterrent to crime, but rather a society's policy for dealing with the consequences of those found guilty of it. Criminals don't plan on going to prison just like entrepreneurs don't plan on business failure.

Apologies are irrelevant

Our society tends to place too much emphasis on contriteness and apologies. While that is an admirable trait, apologies do not undo any harm on victims of white collar crime. Apologies make society feel good

but accomplish little beyond that. Therefore, I feel that apologies are irrelevant and serve only to humanize white collar criminals at the expense of dehumanized victims.

Sources of information on white collar crime

Every source has an agenda. To government investigators, it's known as the XXX principle (and I am not talking about pornography).

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

While such sources can provide useful information, investigators and the media are cautioned that such sources usually have an ax to grind and are looking to promote their particular personal agendas. They may have known about the crime during the execution of it, but did not report it. Worst yet, they may have participated in the crime and are trying cover up their own wrongdoing by blaming some people and protecting other co-conspirators.

Investigators and journalists should never trust a source or fall in love with the information that sources provide you. Criminals know that investigators and journalists have limited time and resources to check the accuracy of their information. Therefore, cross checking information and independently verifying information from a source is essential for any investigator or journalist.

Common elements of all white collar crime – the fraud triangle

Criminologists believe that all white collar crime have three common elements: incentive, opportunity, and rationalization (known as the fraud triangle).

Incentive

All white collar criminals require an incentive to commit their crimes. However, many people erroneously believe that personal financial benefit is the primary incentive for economic crimes.

While personal financial benefit can be one of many motivations to commit white collar crimes, in many cases it is not the primary reason that white collar criminals commit their crimes. As a result, many white collar criminals are overlooked as possible suspects because people do not associate a personal financial benefit to their actions.

The primary reason that many white collar criminals commit their crimes is for ego, stature, and loyalty. Personal financial benefit is not always a primary incentive for white collar criminals to commit their crimes.

Opportunity

All white collar criminals require an opportunity to commit their crimes. Unfortunately, our society creates that opportunity.

Society's belief in the presumption of innocence until proven guilty, trust and then verify, and giving people the benefit of the doubt limits society's behavior while providing the white collar criminal with the freedom of action to take advantage of society and commit their crimes.

In addition, lack of internal controls, lack of effective oversight, lack of freedom of the press or speech to question irregularities, and a general lack of professional skepticism creates a fertile opportunity for white collar criminals to commit their crimes.

Rationalization

Many criminologists erroneously believe that white collar criminals have to rationalize their crimes with some sense of perceived entitlement. I disagree. Most white collar criminals are highly intelligent, have no previous criminal records, and know right from wrong.

How to find red flags for possible fraud in plain sight

In order to find fraud, you have to spot "patterns of inconsistencies" in a company's public disclosures found in SEC filings, earnings conference calls, media interviews, trade journals, and other forums. In an interview with Fortune Magazine published on December 17, 2007, I listed the following rules:

INVESTOR BEWARE

Sam E.'s five rules for spotting potential fraud in public companies.

Study SEC filings yourself.

External auditors, audit committees, and Wall Street analysts cannot protect you from most fraud. Analysts often do not ask the important questions and are too quick to accept management's representations.

Read the footnotes first.

Tiny things can be huge. In the Crazy Eddie fraud, the change of a single word (from "purchase discounts and trade allowances are recognized when received" to "recognized when earned") allowed Sam E. to inflate the company's earnings in fiscal year 1987 by about \$20 million.

Watch for inconsistencies.

If the CEO tells the press, "We are profitable," make sure the figures in the 10-Q back up the statement.

Always crosscheck disclosures.

Compare Management Discussion & Analysis in the current report with MD&A sections in past 10-Qs. Look for any changes in disclosure language.

Sound like too much work?

If you don't have the time or expertise to do the above, don't buy individual stocks. Stick with index funds.

White Collar Fraud Blog: The Art of Spinning: How to Identify Possible White Collar Criminals or at Least Unethical and Deceitful People Who You Should Avoid (December 25, 2006)

White collar crime is a crime of persuasion and deceit. Since the white collar criminal uses persuasion and deceit to commit their crimes, it follows that such felons are artful liars.

People often ask me what characteristics I look for in other people that alert me to possible criminal activity or at least unethical and deceitful people.

Not all questionable conduct is illegal. A person can be unethical or deceitful (however they are defined) without committing any illegal acts as defined under the law.

However, most criminals use tools like spinning (see below) in the conduct of their crimes.

The Art of Spinning

Sell people hope. My cousin 'Crazy Eddie' Antar taught me that "people live on hope" and their hopes and dreams must be fed through our spin and lies. In any situation, if possible, accentuate the positive.

Make excuses as long as you can. Try to have your excuses based on at least one truthful fact even if the fact is unrelated to your actions and argument.

When you cannot dispute the underlying facts, accept them as true but rationalize your actions. You are allowed to make mistakes as long as you have no wrongful intent. Being stupid is not a crime.

Always say in words you "take responsibility" but try to indirectly shift the blame on other people and factors. You need to portray yourself as a "stand up" guy or gal.

When you cannot defend your actions or arguments attack the messenger to detract attention from your questionable actions.

Always show your kindness by doing people favors. You will require the gratitude of such people to come to your aid and defend you.

Build up your stature, integrity, and credibility by publicizing the good deeds you have done in areas unrelated to the subject of scrutiny.

Build a strong base of support. Try to have surrogates and the beneficiaries of your largess stand up for you and defend you.

If you can, appear to take the "high road" and have your surrogates do the "dirty work" for you. After all, you cannot control the actions of your zealots.

When you can no longer spin, shut up. For example, offer no guidance to investors or resign for

“personal reasons.” Your surrogates and so-called friends can still speak on your behalf and defend you.

If you are under investigation always say you will “cooperate.” However, use all means necessary legal or otherwise to stifle the investigators. Remember that “people live on hope” and their inclination is to believe you.

When called to testify under oath (if you do not exercise your 5th amendment privilege against self-incrimination) have selective memory about your questionable actions. It is harder to be charged with perjury if you cannot remember what you have done rather than testify and lie about it.

However, before you testify have other friendly witnesses testify before you to defend you. You need to “lock in” their stories first (before they change their minds) so your testimony does not conflict with their testimony and your story will appear to be more truthful.

Try not to have your actions at least appear to rise to the level of criminal conduct or a litigable action. Being stupid or being unethical is not always a crime or a tortious action.

One last rule, to be a most effective spinner always keep your friends close and your enemies closer. The kindness you show your enemies will reduce their propensity to be skeptical of you.

If you see some of the above similarities in people who are in authority such as executives, politicians, and others, you are forewarned to watch out. Before a person can be a white collar criminal, they must be deceitful and be able to follow most of the above rules of spinning.

White Collar Fraud Blog: A New Year’s Message from a Convicted Felon: While you hope, criminals prey (December 29, 2008)

My cousin Crazy Eddie Antar taught me that “people live on hope.” As white collar criminals, we preyed on your hopes and dreams by feeding you our spin and lies.

Investors demand confident leadership and strong financial performance from company managements. They want to hear management exuding confidence about their company’s future business prospects. Eddie and I built an image of strong and confident leadership by promising investors a prosperous future backed up by our phony financial reports.

As criminals, we considered the humanity of investors as a weakness to be exploited in the cold-blooded execution of our crimes. We measured our effectiveness by the comfort level of our victims.

My cousin Eddie and I built walls of false integrity around us to gain the trust of our victims. We claimed that Crazy Eddie's accounting policies were "conservative." In addition, we gave huge sums of money to charity and were involved in many popular social causes in an effort to make investors comfortable with us. While we were in effect, “helping old ladies cross the street,” we were heartlessly executing a

massive fraud that wiped out the life savings of thousands of investors and ultimately caused a few thousand people to lose their jobs.

Eddie Antar and I never had a single conversation about morality or right and wrong. We simply did not care about the victims of our crimes. Our conversations only focused on the successful execution of our cold-blooded schemes to defraud investors.

At Crazy Eddie, we committed our crimes simply because we thought we could execute them successfully. We took advantage of investor's hopes, dreams, and aspirations for a better future. More importantly, we fully exploited investor's lack of skepticism that resulted from the wall of false integrity we built around ourselves.

Hope is a fine human quality that motivates us to build a better future. Unfortunately, criminals consider your hope as an exploitable weakness to aid them in the successful execution of their crimes.

Do not get mesmerized by neatly packaged story lines and well researched sound bites written by professional high paid media consultants. Criminals know how to “talk the talk and walk the walk” as they inspire you with false promises of a prosperous future.

In the New Year, please do not let criminals exploit your hopes and dreams. In addition, you are cautioned to apply the same advice to our elected officials from all sides of the political spectrum who exploit your hopes with inspiring rhetoric to sell you flawed solutions to major problems facing our nation.

Have a skeptical New Year.