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PRESS RELEASE

**TOP CORPORATE OFFICERS OF ALLOU HEALTHCARE
INDICTED IN MASSIVE CORPORATE FRAUD, ARSON,
INSURANCE FRAUD AND BRIBERY SCHEMES**

ROSLYNN R. MAUSKOPF, United States Attorney for the Eastern District of New York and a member of the President's Corporate Fraud Task Force, **WILLIAM E. KEZER**, Postal Inspector-in-Charge, New York, **ROSE GILL HEARN**, Commissioner, New York City Department of Investigation, **NICHOLAS SCOPPETTA**, Commissioner, New York City Fire Department, **WILLIAM G. McMAHON**, Special Agent-in-Charge, Bureau of Alcohol, Tobacco, Firearms & Explosives, and **RAYMOND W. KELLY**, Commissioner, New

York City Police Department, announced today the indictment of HERMAN JACOBOWITZ, VICTOR JACOBOWITZ, JACOB JACOBOWITZ, AARON JACOBOWITZ, IRVIN BROWN, JACOB FEKETE, NACHMAN LICHTER and SHOLEM KLEIN in connection with a massive corporate fraud scheme that led to the bankruptcy of Allou Healthcare, Inc. (“Allou”), an arson that damaged Allou’s Brooklyn warehouse and that served as the basis for fraudulent claims submitted by the defendants to Allou’s insurance carriers, and a bribery scheme intended to falsify the Fire Marshal’s report on the arson.¹

The defendants will be arraigned on the indictment this afternoon by United States District Judge John Gleeson at the U. S. Courthouse, 225 Cadman Plaza East, Brooklyn, New York.

THE CORPORATE FRAUD

The indictment unsealed in the United States District Court in Brooklyn this morning charges Allou’s top officers and controlling shareholders with a long-running corporate fraud scheme that looted Allou and plunged it into bankruptcy in April 2003, destroying the holdings of thousands of investors.² Prior to its bankruptcy, Allou, which distributed health and beauty aids and pharmaceuticals, was a public company traded on the American Stock Exchange and was one of the largest companies on Long Island with approximately 300 employees and

¹ The charges contained in the indictment are merely allegations and the defendants are presumed innocent unless and until proven guilty.

² The defendants HERMAN JACOBOWITZ, VICTOR JACOBOWITZ, JACOB JACOBOWITZ, and IRVIN BROWN have also been charged with violations of federal securities laws in a related civil action filed by the United States Securities and Exchange Commission today in the Eastern District of New York.

over \$500 million in reported annual revenues. Today's indictment expands the charges brought against these defendants in criminal complaints at the time of their arrest in August 2003.

The indictment charges that defendants HERMAN JACOBOWITZ (Allou's chief executive officer), VICTOR JACOBOWITZ (the chairman of Allou's board of directors), JACOB JACOBOWITZ (Allou's executive vice president), AARON JACOBOWITZ (manager of various companies controlled by the Jacobowitz family) and IRVIN BROWN (the head of Allou's computer department) engaged in a scheme to defraud both Allou's creditors and shareholders by issuing false and misleading financial statements to its lenders and to the investing public. During the course of the long-running scheme, which the indictment alleges began in 1991, Allou had a line of credit from a syndicate of banks that permitted it to borrow an amount equal to 60% of the value of its inventory and 85% of the value of its accounts receivable. Allou's top officers fabricated documentation for hundreds of millions of dollars in non-existent inventory and sales in order to increase the funds Allou could borrow under its line of credit.

Specifically, Allou funds were sent to JACOBOWITZ-controlled entities for phantom purchases of inventory, and then a portion of these funds were sent back to Allou in payment of bogus invoices reflecting non-existent sales. Thus, the defendants engaged in a circular movement of funds to inflate inventory and accounts receivable in order to fraudulently increase Allou's borrowing power. As part of this scheme, the indictment alleges that the defendants siphoned millions of dollars from Allou for their personal enrichment by transferring more funds from Allou to the JACOBOWITZ-affiliated companies than was returned by these companies to Allou.

The indictment charges that, in addition to misrepresenting Allou's true financial condition to its lenders, the defendants also provided the same fraudulent and misleading financial information to the Securities and Exchange Commission and the investing public. Furthermore, in order to meet its quarterly and annual earnings projections, Allou's top officers manipulated the value of its inventory to create additional earnings, which had the effect of fraudulently inflating the price of Allou's stock.

Finally, the indictment charges that HERMAN JACOBOWITZ falsely certified to the SEC that the quarterly and annual reports filed by Allou with the SEC fairly presented the financial condition and results of Allou's operations.

To facilitate the scheme and conceal it from auditors and regulators, the indictment alleges that the defendants created, in effect, two sets of financial books within Allou's computer system. This dual system permitted the co-conspirators to use a secret password to access data regarding the bogus sales and inventory, while keeping these fabricated transactions concealed from most of Allou's employees, and permitted Allou to provide this false information to its lenders and auditors.

The indictment alleges that, in April 2003, as a result of the unraveling of the defendants' fraudulent scheme, Allou was forced into bankruptcy and trading in its stock was halted. As a result of Allou's bankruptcy, the shares of Allou common stock held by the investing public are now virtually worthless. It is estimated that Allou's lenders lost approximately \$140 million as a result of the scheme.

ARSON, BRIBERY AND INSURANCE FRAUD

As alleged in the indictment, on September 25, 2002, between 11:00 p.m. and

midnight, a three alarm fire broke out at a warehouse located at 80 Evergreen Avenue in Brooklyn, New York. Approximately 245 firefighters responded to the blaze, with two suffering injuries. The Evergreen warehouse stored health and beauty aid products, fragrances and cosmetics for Allou. The cause of the fire was investigated by the Joint Arson Task Force, which included members of ATF, the Arson and Explosion Squad of the New York City Police Department, and the Special Investigations Unit of the Bureau of Fire Investigation of the New York City Fire Department. Fire Marshals from the Special Investigations Unit determined that the fire was the result of arson. In part because the Fire Marshals declared the fire an arson, Allou's insurance carriers withheld payment on Allou's insurance claim.

As charged in the indictment, the defendants HERMAN JACOBOWITZ, VICTOR JACOBOWITZ and NACHMAN LICHTER caused the fire to be deliberately set at the Evergreen warehouse. HERMAN JACOBOWITZ, VICTOR JACOBOWITZ and IRVIN BROWN then caused Allou to submit a false and fraudulent insurance claim regarding its losses attributable to the fire. The defendants participated in the arson and engaged in the insurance fraud scheme, the indictment alleges, in order to conceal the massive ongoing bank fraud and securities fraud at Allou.

The indictment charges that, after the investigating Fire Marshals issued a Fire and Incident Report declaring that the fire was caused by arson, and Allou's insurers consequently refused to pay its claim, the defendants HERMAN JACOBOWITZ, VICTOR JACOBOWITZ, AARON JACOBOWITZ, JACOB FEKETE, NACHMAN LICHTER and SHOLEM KLEIN sought to bribe a New York City Fire Marshal to change the Fire Department's official report. In order to provide the Fire Department with an ostensible basis to

change its conclusion regarding the cause of the fire, the indictment alleges that the defendants HERMAN JACOBOWITZ, VICTOR JACOBOWITZ, AARON JACOBOWITZ, JACOB FEKETE, NACHMAN LICHTER and SHOLEM KLEIN obstructed the federal grand jury investigation into the fire by fabricating and planting evidence, namely burned electric space heaters, in the fire debris at the Evergreen warehouse. FEKETE then arranged to have Fire Marshals -- acting undercover as corrupt Fire Marshals -- recover this bogus evidence from the warehouse as part of the investigation into the cause of the fire.

The indictment alleges that on July 30, 2003 and August 1, 2003, defendant JACOB FEKETE gave an undercover Fire Marshal a total of \$50,000 in cash, toward a promised bribe of \$100,000, in exchange for a revised Fire and Incident Report declaring that the cause of the Fire at the Evergreen warehouse was accidental.

“Today’s indictment presents a portrait of a corporation whose top executives corrupted every aspect of their company’s operations and who violated nearly every criminal statute designed to address corporate malfeasance,” stated United States Attorney **ROSLYNN R. MAUSKOPF**. “The sheer scope and variety of the crimes committed by these defendants is staggering: a massive, decade-long fraud scheme, arson and bribery of a government official. Moreover, the fact that these crimes were carried out by the top officers of a public company to enrich themselves at the expense of their shareholders, creditors and insurers makes their conduct even more outrageous. This prosecution demonstrates that, using the new tools provided to prosecutors by the Sarbanes-Oxley Act, we will ensure that such shocking criminal conduct will be dealt with severely.” Ms. **MAUSKOPF** thanked the Securities and Exchange Commission for their assistance in the corporate fraud investigation, and King’s County District Attorney

Charles J. Hynes for his office's assistance in the arson investigation.

WILLIAM E. KEZER, Postal Inspector-in-Charge, stated, "The senior executives at Allou Healthcare ignored their fiduciary duties to the company's stockholders by committing widespread accounting fraud which bankrupted the company. They also engaged in arson and bribery to cover up their egregious offenses. As a member of the President's Corporate Fraud Task Force, the US Postal Inspection Service will continue to aggressively investigate and work with our law enforcement partners to bring to justice those who commit acts of corporate fraud."

ROSE GILL HEARN, Commissioner, New York City Department of Investigation, stated, "The avarice of these defendants canceled out any concern for the fact that by torching their Brooklyn warehouse they created a horribly dangerous situation in which at least two of the 245 responding firefighters were injured and any number could have been killed as they spent nearly 15 hours trying to extinguish a raging inferno. The defendants' conduct became even more reckless when they sought to bribe a Fire Marshal by promising him \$100,000 in cash in exchange for a new fire report declaring that the fire was accidental in origin rather than arson. I congratulate all of the investigators who contributed to this case, especially to those from DOI who orchestrated dozens of undercover operations and tape recorded conversations to help develop the weighty evidence that resulted in today's indictment."

"The Fire Department applauds the outstanding investigative efforts and diligence of the U.S. Attorney's Office as well as the many other local and federal agencies involved in bringing about this indictment," said Fire Commissioner **NICHOLAS SCOPPETTA**. "I am particularly proud of the Fire Marshals from the FDNY's Bureau of Fire Investigation, for their

ingenuity and resourcefulness during this lengthy investigation.”

WILLIAM G. McMAHON, Special Agent-in-Charge, Bureau of Alcohol, Tobacco, Firearms & Explosives, stated, “This case is a classic example of individual and corporate greed which ultimately resulted in victimizing the insurance companies and creditors, the public investors and more seriously, the very firefighters who responded to the fire. Through the efforts of the ATF Joint Arson Task Force and our other partners, we are sending a message to the criminal-corporate world that arson-for-profit schemes will not be tolerated. Those individuals who use arson to line their own pockets will be thoroughly investigated, arrested and prosecuted to the full extent of the law.”

RAYMOND W. KELLY, Commissioner, New York City Police Department, stated, “These individuals were paid to safeguard a corporation’s assets and shareholders’ interests. Instead, they used their positions to loot and steal. These arrests and indictment signify this Department’s commitment to work with other agencies in pursuing criminals whether they operate in alleyways or boardrooms.”

If convicted, the defendants face a maximum sentence of 30 years’ imprisonment on each of the conspiracy and bank fraud counts; 25 years’ imprisonment on the securities fraud count; 20 years’ imprisonment on each of the mail fraud counts, the counts charging false SEC filings, the counts charging false certifications of financial reports and the count charging obstruction of justice; 40 years’ and 10 years’ imprisonment respectively on the two arson counts; and 15 years’ and 10 years’ imprisonment respectively on the two bribery counts. On each of the counts, the defendants also face fines ranging from \$250,000 to \$1,000,000 or twice the loss resulting from the offense.

In addition, the indictment seeks a forfeiture judgment against all defendants including, but not limited to, a sum of \$140 million, for which the defendants are jointly and severally liable. The indictment also seeks forfeiture of assets of the defendants HERMAN JACOBOWITZ, VICTOR JACOBOWITZ, JACOB JACOBOWITZ, AARON JACOBOWITZ and IRVIN BROWN that are directly traceable to the bank fraud. Finally, the indictment seeks forfeiture of substitute assets consisting of 18 real properties and cooperative apartments located in New York.

The government's case is being prosecuted by Assistant United States Attorneys Ronald White, Richard Faughnan, Richard Weber and Kathleen Nandan.

The Defendants:

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IRVIN BROWN
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Monsey, N.Y. 10952
DOB: 6/28/60

HERMAN JACOBOWITZ
116 Rutledge Street
Brooklyn, N.Y. 11211
DOB: 7/8/60

JACOB FEKETE
364 Marcy Avenue
Brooklyn, N.Y. 11206
DOB: 12/30/63

JACOB JACOBOWITZ
171 Hooper Street
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DOB: 4/29/61

NACHMAN LICHTER
3 Fessler Drive
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AARON JACOBOWITZ
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