



U.S. Department of Justice

United States Attorney
Eastern District of New York

One Pierrepont Plaza
Brooklyn, New York 11201

Mailing Address: 147 Pierrepont Street
Brooklyn, New York 11201

FOR IMMEDIATE RELEASE

August 12, 2003

Contacts:

Lynda Clarke
United States Attorney's Office
(718) 254-6257

Emily Gest
NYC Department of Investigation
(212) 825-5931

David Ng
U. S. Postal Inspection Service
(212) 330-3387

Frank Gribbon
FDNY
(718) 999-2025

Jerry Schmetterer
Kings County District Attorney's Office
(718) 250-2300

Joseph Green
Bureau of ATF & E
(718) 650-4000

Michael O'Looney
NYPD
(646) 610-6700

PRESS RELEASE

**ALLOU HEALTHCARE PRINCIPALS CHARGED IN MASSIVE
CORPORATE FRAUD AND BRIBERY SCHEME**

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**, Inspector-in-Charge, U. S. Postal Inspection Service, New York, **ROSE GILL HEARN**, Commissioner, New City Department of Investigation, **NICHOLAS SCOPPETTA**, Commissioner, New York City Fire Department, **RAYMOND W. KELLY**, Commissioner, New York City Police Department, **WILLIAM G. McMAHON**, Special Agent-in-Charge,

Bureau of Alcohol, Tobacco, Firearms & Explosives, and **CHARLES J. HYNES**, Kings County District Attorney, announced today the arrests of VICTOR JACOBOWITZ, HERMAN 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. and a bribery scheme intended to falsify the Fire Marshal's report on the arson of Allou's Brooklyn warehouse. These defendants are charged in two separate but related complaints.

THE CORPORATE FRAUD

The corporate fraud complaint charges Allou's top officers and controlling shareholders with a long-running corporate fraud scheme that looted Allou Healthcare and plunged it into bankruptcy in April 2003, destroying the holdings of thousands of investors. As charged in the complaint, prior to its bankruptcy, Allou, which distributed health and beauty aids and pharmaceuticals, was a public company traded on the American Stock Exchange and one of the largest companies on Long Island.

The complaint charges that defendants VICTOR JACOBOWITZ (the chairman of Allou's board of directors), HERMAN JACOBOWITZ (Allou's chief executive officer), JACOB JACOBOWITZ (Allou's executive vice president), AARON JACOBOWITZ (owner of various Allou-affiliated companies) 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 the investing public and to its lenders. Allou had a line of credit from a syndicate of banks led by Congress Financial Corporation which permitted it to borrow an amount equal to 60% of the value of its inventory and 85% of the value of its accounts

receivables. Allou's top officers fabricated documentation for hundreds of millions of dollars in non-existent sales and inventory in order to increase the funds Allou could borrow under its line of credit.

In just the last 15 months of Allou's operation, the defendants fabricated approximately \$220 million in bogus sales and nearly \$200 million in purchases of non-existent inventory. The complaint charges that, through these bogus transactions, the defendants siphoned off approximately \$15 million from Allou in just the last year of the decade-long scheme. In short, the defendants engaged in a circular movement of funds to inflate inventory and accounts receivable in order to fraudulently increase Allou's borrowing power -- 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.

The government's investigation, which was conducted by the Postal Inspection Service with the assistance of the United States Securities and Exchange Commission ("SEC"), also discovered that, in addition to misrepresenting Allou's true financial condition to Congress, the defendants also provided the same fraudulent and misleading financial information regarding Allou to the SEC and the investing public. In addition, the complaint charges that, in order to meet its quarterly earnings projections, Allou's top officers falsely manipulated the value of its inventory to create additional earnings. Finally, the complaint alleges that HERMAN JACOBOWITZ provided false information to auditors preparing Allou's financial statements for disclosure to the investing public.

To facilitate the scheme and conceal it from auditors and regulators, it is alleged

that IRVIN BROWN, at the request of HERMAN JACOBOWITZ, 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.

In April 2003, as a result of the unraveling of this fraudulent scheme, Allou and its subsidiaries were forced into bankruptcy, and trading in its stock was halted. These bankruptcy cases are now pending in United States Bankruptcy Court in the Eastern District of New York. Under the supervision of a trustee appointed by the bankruptcy court, Allou's assets are currently being liquidated to satisfy the claims of its creditors. Virtually all of Allou's employees have been terminated. Given the size and priority of the claims of Allou's secured creditors, the roughly six million 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 this scheme.

THE BRIBERY SCHEME

As alleged in the complaint, 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 three suffering injuries. The fire was not fully extinguished until approximately 2:00 p.m. the following day. The Evergreen warehouse stored healthcare and household products of Allou. The cause of the fire was investigated by the Joint Arson Task Force, which included members of the Bureau of Alcohol, Tobacco, Firearms & Explosives, the Arson and Explosives 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. Because the Fire Marshals declared the fire an arson, Allou's insurance carriers have withheld payment on Allou's insurance claim.

As charged in the complaint, the defendants AARON JACOBOWITZ, JACOB FEKETE, NACHMAN LICHTER, and SHOLEM KLEIN conspired to bribe a New York City Fire Marshal by promising him \$100,000 in cash in exchange for his issuing a false Fire and Incident Report declaring that the fire at the Evergreen warehouse was accidental in origin rather than the result of arson. The defendants also conspired to obstruct justice by fabricating evidence and making false statements to the Fire Marshals in order to provide factual support for the new fire report. Ultimately, the defendants planned to present the new fire report to Allou's insurance carriers in order to recover on Allou's \$100 million insurance claim. The defendants also planned to present the report to the Office of the District Attorney of Kings County in an apparent effort to influence that office's criminal investigation into the circumstances surrounding the fire.

The bribery and obstruction investigation began in January 2003 when JACOB FEKETE approached an official with a New York City agency, who is cooperating in the investigation (the "CW"), and sought his assistance in having the fire report concerning the Evergreen warehouse changed to reflect that the fire was accidental in origin. The CW reported FEKETE's approach to the New York City Department of Investigation ("DOI"). Over the next eight months, under DOI's supervision, the CW and a Supervising Fire Marshal, who was cross-designated as a Deputy United States Marshal in connection with his responsibilities as a

supervisor with the Joint Arson Task Force, and who acted in an undercover capacity as a corrupt Fire Marshal, tape recorded more than 100 conversations with FEKETE, LICHTER, and KLEIN as they negotiated, planned, and carried out the bribery and obstruction scheme.

The complaint charges that the defendants' scheme involved the planting of burned electrical heaters on the site of the warehouse in order to create evidence to support the fraudulent fire report. In exchange, the bribery defendants conspired to pay \$100,000 cash in several installments to the undercover Fire Marshal. The defendants ultimately paid the undercover \$50,000 of the \$100,000 promised. The entire scheme was recorded in taped conversations with the defendants. For example, in one such conversation FEKETE explained, "He's asked me for a hundred thousand dollars, I'm giving it. When the [false fire] report is here, I'm giving it."

Following the arson, Allou stood to collect approximately \$101 million in insurance proceeds for inventory which, because of the fraudulent scheme described above, may very well have not existed at all. Such an insurance recovery held the potential to substantially plug the gap in Allou's inventory -- the non-existent inventory, which VICTOR JACOBOWITZ, HERMAN JACOBOWITZ, JACOB JACOBOWITZ and IRVIN BROWN had reported to Allou's creditors and included in the company's financial statements.

In announcing the filing of the charges and the defendants' arrests, United States Attorney **ROSLYNN R. MAUSKOPF** stated, "The defendants in today's complaints are charged with schemes whose venality, corruption and willful disregard for public safety staggers the imagination. They have hit for the cycle of corporate fraud: charged with schemes involving virtually every type of phoney accounting manipulation, looting their public company,

impoverishing investors, obstructing regulators, and brazenly orchestrating a bribery scheme of public officials in a futile effort to cover their tracks. These charges demonstrate our commitment to root out corporate fraud and extinguish the culture of greed and lawlessness that breeds these crimes.”

WILLIAM E. KEZER, Postal Inspector-in-Charge, stated, “The arrests of these individuals, and the exposure of the full realm of their criminal conduct, serves a sober reminder to all of those who believe they can use their corporate power and influence to cover up their corrupt behavior. The Postal Inspection Service will continue to aggressively investigate corporate frauds and we will work with all of our law enforcement partners to ensure that corporate insiders are held accountable for their actions.”

ROSE GILL HEARN, Commissioner, New York City Department of Investigation, stated “This scam involved very dangerous conduct that risked lives. It also necessitated corrupting a city employee. Thanks to the incredible investigative work done in this case, these defendants were unsuccessful and their scheme was thwarted.”

NICHOLAS SCOPPETTA, Commissioner, New York City Fire Department, stated, “As part of an elaborate scheme to defraud their shareholders, creditors and insurers, the defendants resorted to bribery in an attempt to change the Fire Marshal’s report to indicate falsely that the three alarm blaze that destroyed Allou’s warehouse in Brooklyn -- and endangered the lives of the 245 firefighters that responded to the scene -- was accidental in origin rather than the result of arson. I commend the teamwork of the various investigatory agencies that led to these charges -- in particular, the Fire Marshals who worked undercover and gathered damning evidence that I hope results in lengthy prison terms for all involved in this nefarious plot.”

King's County District Attorney **CHARLES J. HYNES** stated, "This investigation and consequent prosecution is a superb example of cooperation among many law enforcement agencies, both state and federal. The breadth of the alleged criminal behavior of these defendants required a concerted and coordinated effort over a considerable period of time. I am proud of the job that the investigators and prosecutors have done to bring these defendants to account for their years of criminal activity."

WILLIAM G. McMAHON, Special Agent-in-Charge, Bureau of Alcohol, Tobacco, Firearms & Explosives, stated, "ATF is proud to have worked with all of our law enforcement partners on this important investigation. Working together, using the expertise of each of our agencies, we have been able to bring these defendants to justice."

RAYMOND W. KELLY, Commissioner, New York City Police Department, stated, "The Joint Arson Task Force investigated the Brooklyn warehouse arson fire that triggered the subsequent bribery investigation. Thanks to the efforts of this multi-agency task force, we have uncovered corporate fraud that bilked investors out of tens of millions of dollars, and ultimately drove Allou Healthcare into bankruptcy."

The defendants' preliminary appearances will be held this afternoon before United States Magistrate Judge Steven M. Gold at the U. S. Courthouse, 225 Cadman Plaza East, Brooklyn New York.

If convicted, the defendants who are charged in the corporate fraud complaint face a maximum sentence of 30 years imprisonment, forfeiture, and fines of \$1,000,000 or twice the losses resulting from the offense. The defendants who are charged in the bribery complaint face

a maximum sentence of five years imprisonment and fines of \$250,000.¹

The government's case is being prosecuted by Assistant United States Attorneys Ronald White, Richard Faughnan and Richard Weber. Assistant District Attorney John Dixon led the Kings County District Attorney's Office's investigation and assisted in the federal investigation.

The Defendants:

VICTOR JACOBOWITZ
176 Penn Street
Brooklyn, N.Y. 11211
DOB: 6/18/32

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

JACOB JACOBOWITZ
171 Hooper Street
Brooklyn, N.Y. 11211
DOB: 4/29/63

AARON JACOBOWITZ
695 Bedford Avenue, #97
Brooklyn, N.Y. 11211
DOB: 10/25/63

IRVIN BROWN
6 Esther Lane
Monsey, N.Y.
DOB:

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

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

NACHMAN LICHTER
3 Fessler Drive
Monsey, N.Y. 10952
DOB: 8/4/70

SHOLEM KLEIN
133 Gerry Street, #4R
Brooklyn, N.Y. 11206
DOB: 10/20/78