



**U.S. Department of Justice**

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**FOR IMMEDIATE RELEASE**

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**PRESS RELEASE**

**TOP CORPORATE OFFICERS OF ALLOU HEALTHCARE  
PLEAD GUILTY TO MASSIVE CORPORATE FRAUD,  
INSURANCE FRAUD, AND BRIBERY SCHEMES**

**ROSLYNN R. MAUSKOPF**, United States Attorney for the Eastern District of New York, announced today that top executives of Allou Healthcare, Inc. ("Allou") and related companies pleaded guilty to crimes arising from a massive corporate fraud scheme at Allou. The indictment detailed a staggering, decade-long bank fraud and securities fraud scheme involving hundreds of millions of dollars of phony sales and grossly inflated inventory, and a mail fraud and insurance fraud scheme arising from a fire at Allou's Brooklyn warehouse involving a false insurance claim and the bribery of an undercover Fire Marshal to change the cause of the fire from "arson" to "accidental." The related schemes resulted in losses to creditors, investors, and other victims in the amount of an estimated \$160 million and ultimately drove Allou into bankruptcy.

Under the terms of their respective plea agreements, **HERMAN JACOBOWITZ**

(Allou's chief executive officer) pleaded guilty to conspiracy to commit bank fraud, securities fraud, and mail fraud, and to a substantive count of filing a false annual report with the Securities and Exchange Commission ("SEC"), and faces up to 15 years' imprisonment and a maximum fine of up to twice the amount of the loss from the fraud. JACOB JACOBOWITZ (Allou's executive vice president) pleaded guilty to filing a false annual report with the SEC, and faces up to 10 years' imprisonment and a maximum fine of \$1,000,000. AARON JACOBOWITZ (manager of various companies controlled by the Jacobowitz family) pleaded guilty to money laundering and faces up to 10 years' imprisonment and a maximum fine of up to twice the amount of the loss from the fraud, or twice the amount of the laundered funds, whichever is greater. In addition, HERMAN and AARON JACOBOWITZ agreed to forfeit to the government up to \$130 million, and JACOB JACOBOWITZ agreed to forfeit up to \$10 million.

The guilty plea proceedings were held before United States District Judge John Gleeson at the U. S. Courthouse, 225 Cadman Plaza East, Brooklyn, New York

### **The Corporate Fraud**

The government's investigation revealed that Allou's top officers and controlling shareholders participated in a long-running corporate fraud scheme that looted Allou and plunged it into bankruptcy in April 2003, destroying the holdings of thousands of investors. 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 over \$500 million in reported annual revenues.

HERMAN JACOBOWITZ, JACOB JACOBOWITZ, and AARON JACOBOWITZ 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 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 entities controlled by AARON JACOBOWITZ 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 defendants siphoned millions of dollars from Allou for their personal enrichment by laundering more funds through the JACOBOWITZ-affiliated companies than was returned by these companies to Allou.

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. Further, 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. As part of their guilty pleas, HERMAN JACOBOWITZ and JACOB JACOBOWITZ admitted signing false documents filed publicly with the Securities and Exchange Commission.

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 \$130 million as a result of the scheme.

### **Bribery and Insurance Fraud**

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 the Bureau of Alcohol, Tobacco, Firearms & Explosives, 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.

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, HERMAN JACOBOWITZ and AARON JACOBOWITZ sought to change the Fire Department's official conclusion. In furtherance of this plan, the defendants agreed to pay \$100,000 to a public official in order obtain a revised Fire and Incident Report setting forth an official conclusion that the cause of the Fire was accidental, so that the report could be submitted

to the insurers to bolster Allou's fraudulent claim. Between July 30 and August 1, 2003, HERMAN JACOBOWITZ caused \$50,000 in cash to be given to a co-conspirator 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. The coconspirator then gave the \$50,000 to an undercover Fire Marshal.

"Through a staggering series of willful and brazen schemes, these defendants looted a public company, defrauded thousands of investors, creditors, and insurers out of more than \$100 million, and bribed a public official to conceal an arson, all to fuel their greed and cover their tracks," stated United States Attorney **MAUSKOPF**. "This prosecution and today's pleas have successfully rooted out a massive corporate fraud and extinguished a culture of corruption and lawlessness that bred these crimes." Ms. **MAUSKOPF** thanked the U.S. Postal Inspection Service, the Bureau of Alcohol, Tobacco, Firearms & Explosives, the New York City Fire Department, the New York City Department of Investigation, and the New York City Police Department for their assistance in the criminal investigation. Additionally Ms. **MAUSKOPF** thanked the Securities and Exchange Commission for its assistance in the corporate fraud investigation, and the King's County District Attorney's Office for its assistance in the investigation of the September 2002 arson.

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

**The Defendants:**

HERMAN JACOBOWITZ  
DOB: 7/8/60

JACOB JACOBOWITZ  
DOB: 4/29/61

AARON JACOBOWITZ  
DOB: 10/25/63