

# The Crazy Eddie Fraud

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## Confessions of a White-Collar Criminal

By: Sam E. Antar

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Website: [www.whitecollarfraud.com](http://www.whitecollarfraud.com)

Blog: [www.whitecollarfraud.blogspot.com](http://www.whitecollarfraud.blogspot.com)

Twitter: [www.twitter.com/samantar](http://www.twitter.com/samantar)

Linkedin: [www.linkedin.com/in/samantar](http://www.linkedin.com/in/samantar)

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Here begins the Crazy Eddie story. My name is Sam E. Antar. I started working at Crazy Eddie as a stock boy in 1971 and was eventually promoted to its Chief Financial Officer or CFO. I was ousted from the company in a hostile takeover in 1987. Eddie Antar is my cousin; Eddie's father, also named Sam, is my uncle, my father's brother.

## The Early Years

The original predecessor company to Crazy Eddie was ERS Electronics, which was founded by Eddie Antar, Sam M. Antar (Eddie's father), and Ronnie Gindi (a first cousin) in 1969. Eddie, Ronnie, and Sam M. owned equal 1/3 shares of ERS Electronics. The original store was located on 1117 Kings Highway in Brooklyn, New York. The company operated under the name of Sights and Sounds.

When Crazy Eddie was opening up for business during the early 1970's, consumer electronics retailers were subject to "fair trade" laws. These laws allowed manufacturers to require retailers to sell merchandise at the same price to avoid price competition for their products. These laws were having a negative effect on smaller retailers, such as Crazy Eddie.

The larger chain store retailers, which had large advertising budgets, were forcing many smaller independent "mom and pop" retailers out of business. While smaller retailers had lower overheads, they were unable to compete with the larger stores by lowering prices because fair trade forced all retailers to sell merchandise at the same price. Therefore, the smaller retailers could not use their cost efficiencies to pass along better values to consumers and thereby compete against the chain stores.

Around 1970-1971, Sights and Sounds, like many other small retailers, was struggling to stay in business. In 1971, Eddie Antar purchased Ronnie Gindi's share of ERS electronics for \$25,000 in cash. Eddie Antar now owned 2/3 of Sights and Sounds and his father Sam M. Antar owned 1/3 of Sights and Sounds.

To survive in business, Eddie Antar resorted to circumventing fair trade by discounting merchandise to customers. The manufacturers retaliated against Eddie by refusing to sell Sights and Sounds any products. Eddie Antar was forced to buy excess merchandise from other retailers and access grey markets (overseas) to purchase merchandise.

Although not endearing himself with manufacturers, Eddie Antar built up great customer loyalty during the process of circumventing fair trade by offering reduced prices on popular electronic items. In 1971, a co-worker of Deborah Joyce Rosen, Eddie's first wife, told Deborah about the great buys on electronics that he received from purchasing merchandise from a "guy" he called "Crazy Eddie" at Sights and Sounds. Afterwards, Eddie Antar changed the name of the business to "Crazy Eddie."

Around 1972, manufacturers were no longer able to require retailers to sell merchandise at the same price, and fair trade was outlawed. Eddie Antar became the hero to the New York metropolitan area consumer due to playing a role in abolishing fair trade.

Many consumers considered Eddie Antar as a "retailing revolutionary" and they rewarded him handsomely as he opened up more stores. Crazy Eddie's business volume expanded rapidly.

In 1973, Eddie started one of the largest advertising blitzes ever known in the tri-state area and studies showed that Crazy Eddie had better name recognition than Coca Cola among New York area consumers

## The Crazy Eddie "Culture"

Eddie Antar was a charismatic leader who inspired intense loyalty from his family and employees. It was us against them - "Them" being customers, the government, insurance companies, auditors, and everyone else who did not serve the company's interests.

There was a culture at Crazy Eddie that said nothing should go to the government. Cash sales were routinely skimmed to steal sales taxes and avoid paying income taxes. We did not want to support the government with our tax dollars. It did not deserve our hard earned money.

We didn't like our customers any more than we liked the government. Customers were considered to be fools to be taken advantage of. Eddie often told me, "People live on hope." The Antar clan ruling Crazy Eddie and top management exploited the hopes and dreams of their victims in the pursuit of money and power.

Eddie Antar skillfully developed a tightly-knit, loyal company culture to insure that our crimes went undetected and unreported. In the early years, a person was required to be a relative, a friend of the family, or a friend of a friend of the family, to work for the company. There were no so-called "employees." Rather, we were "Crazy Eddie people," and we called ourselves that. There were no "punch clocks" or employee review sessions. Everyone working at Crazy Eddie was considered part of the extended family.

Eddie Antar was readily accessible to all of his Crazy Eddie people. If you had a problem, you went to Eddie and he took care of it. After the Christmas holiday season ended, Eddie Antar routinely doled out large cash bonuses to key employees. He developed a cult leader-type status. Everyone looked up to him. Securities litigator Howard Sirota described Eddie Antar as a "larger than life Brooklyn Fonz type figure." (Sirota knew Eddie in his youth and eventually represented victims of Crazy Eddie's frauds as Chairman of the Class Action Litigation.)

Crazy Eddie even developed its own internal language which was a combination of Arabic, pig Latin, and other retailing slang, handed down from the Antar family's multigenerational merchant roots.

Eddie Antar was a very aggressive sales person and his sales people learned from him quickly. It was not uncommon for Eddie to follow customers out of the store in order to talk them into buying merchandise. The motto was to make every "beha" (the Arabic word for sale) and that "nobody walks."

## How Crazy Eddie was able to discount consumer electronics

Eddie Antar, the "retailing revolutionary," was a ruthless competitor. Eddie Antar knew that the business could not survive in the long run if it constantly offered steep discounts to consumers without somehow earning enough revenue to pay the bills. Therefore, Eddie Antar resorted to a combination of income tax evasion, stealing sales taxes, and "bait and switch" practices to make Crazy Eddie profitable.

### Cash skimming and paying employees "off the books"

Crazy Eddie used tax evasion to reduce its labor costs and make the company more competitive against other retailers. Some of the cash skimming was used to pay Crazy Eddie people "off the books" to avoid paying payroll taxes. In addition, employees paid off the books did not pay income taxes or social security taxes. So this was a clear win-win for the whole Crazy Eddie family.

Back in 1970s, customers were much more likely to pay for electronic items with cash than they are now, and we took full advantage of that. When a customer paid in cash, Crazy Eddie stole the sales taxes, making additional unreported gross profit of about 8%. This gave us a great competitive advantage against competitors who conducted their businesses legitimately.

### "Bait and Switch" sales practices

Crazy Eddie sales people used high pressure "bait and switch" sales tactics to "steer" customers towards higher profit-margin merchandise after baiting them into our stores with our highly popular and well-known "beat any price" policy.

The first sales person's main job was to "switch" the customer or "SW" the customer to higher margin products and services. For example, the sales person would recommend alternative, higher profit products of better value and quality, and high margin extended warranty plans, which were always a bad deal for the consumer.

If the first sales person did not succeed in "switching the customer" to higher margin products and services, a second sales person was assigned ease into the conversation to "take over" or "T.O." the customer in an effort to make a bigger profit.

If the second sales person was unsuccessful in swaying the customer to purchase higher margin products, a third sales person known as the "nail at door" person or "NAD" person made the final effort to convince the customer to purchase higher margin products and services. Only after three attempts to get the customer to purchase higher margin products, did our sales people finally allow the customer purchase the product that they originally intended to buy when they walked into the store.

## **Selling used and defective merchandise as brand new products**

Sometimes, Crazy Eddie did not have a particular product in stock at the time it was sold to a customer. In such cases, if a floor item or previously returned merchandise (known as "reeps") was available, we'd repackaged such merchandise as brand new and sold them to unsuspecting customers. This technique was called "lunching."



## Crazy Eddie Relentless Advertising Campaign

Crazy Eddie's advertising campaign was nothing short of revolutionary. For 17 years, we blanketed the whole northeast U.S. market with our non-stop television, radio, and newspaper advertisements. Among New York metropolitan area consumers, Crazy Eddie had better name recognition than Coca Cola.

The message was:

Shop around. Get the best prices you can find. Then go to Crazy Eddie and he'll beat it!

Crazy Eddie's Prices are Insaane!!!!!!!!!!!!

It is often said that imitation is the sincerest form of flattery. Crazy Eddie's advertisements have appeared in many movies such as Splash! and parodies of its ads appeared on such shows as Saturday Night Live. The parodies continue today.

Around 1971, WCBS-FM account representative Norm Golden talked Eddie Antar into purchasing radio advertising for \$5 a spot. In 1972 during a radio broadcast, Jerry Carroll, known as "Dr. Jerry", adlibbed some of Crazy Eddie's ads. Eddie Antar heard his broadcast and liked his antics. Soon afterwards, Dr. Jerry became the official face of Crazy Eddie and was later immortalized as one of the greatest spokesmen in advertising history.

Larry Weiss was Crazy Eddie's original Advertising Director from 1974 to 1983. Weiss deserves great credit for the genius and success of Crazy Eddie's advertising campaign. He wrote and produced over 3,500 Crazy Eddie TV and radio spots. Harry Spero was Crazy Eddie's advertising director from 1984 to 1988. There were many others who contributed to this great advertising campaign as well.

As a measure of their brilliant and historic success, the words "Crazy Eddie" are still used synonymously with steep price discounting and predatory pricing to aggressively steal market share from competitors.

In a post on the MusicRadio77.com Message Board on March 5, 2005, Larry Weiss wrote the following insightful story about the history of Crazy Eddie's famous advertising campaign:

The recent thread about the Court TV documentary on Crazy Eddie got me reminiscing. As the man responsible for developing Crazy Eddie's advertising and managing that campaign from 1974 through 1983, it still amazes me that 30 years after that work began it is still so highly talked about and remembered. I was asked to participate in the Court TV documentary, but other than providing a few photographs, I declined. So instead, as long as I was reminiscing I thought I'd share with you here some Crazy Eddie history and trivia that few people talk about, or even know about ...

Crazy Eddie (or Sights and Sounds as it was named back then) was one of the very early regular advertisers on FM radio. The corporate name then was ERS Electronics (ERS stood for Eddie, Rose and Sam – Eddie’s parents).

The first station Eddie advertised on was WCBS-FM. The rate was \$5 a spot, buy one get one free. To top that, Eddie never paid the bill, and CBS-FM kept the spots on the air anyway.

Norm Golden was the CBS-FM account executive who first talked Eddie into radio advertising. Eddie told Norm the only way he could get the order was if he first went outside on Kings Highway and urinated on a bus. Norm did.

The original “free price quote” line was a pay phone on the wall at 1117 Kings Highway. Nobody expected it to ring. They were wrong.

In that recent thread, George Kowal said he remembered an account exec at WKHK-FM who “claimed he was the one who introduced Jerry to Eddie and started the whole thing”. That account exec was probably Jeff Coleman. Jeff was working at WPIX-FM at the time. Back then stations were each producing their own Crazy Eddie commercials, and at WPIX the chore was generally divided between Dennis Quinn and Jerry Carrol (and occasionally Howard Hoffman when he joined PIX). It was Jeff who introduced me to Eddie, and it was I who eventually narrowed the talent down to using Jerry exclusively – although Howard was close.

Among the other personalities who were seriously considered and were almost hired to be the Crazy Eddie spokesman was TV sitcom actor Jay Thomas, who at the time was doing morning drive on 99X. He called me almost every day asking for a chance, and he nearly got it. Good thing for his career he didn’t. Mork and Mindy was a better deal. Also in the running was none other than James Brown – who also called me nearly every day trying to talk me into it.

We hired a small production company called Neshobe Films to produce the first television commercials. They had recently completed the series of “Did You Hear What He Said This Morning?” spots for Don Imus and WNBC. Their Cameraman was Jay Dubin – who went on to direct hundreds of Crazy Eddie commercials and then to MTV fame (Billy Joel and others) – eventually producing and directing the Beekmans World television series (shot in very much the same format as Crazy Eddie commercials).

We initially had trouble deciding what direction to take the television advertising. We knew it would have to be outrageous, satirical and tongue in cheek, but we couldn’t decide whether to go with a pitchman or with creative satire. So we decided to do both.

Having watched Jerry voice our radio spots for some time, it was clear he should be the TV pitchman. I proposed it to him while doing radio spots in the WPIX production room – and he accepted immediately.

The first TV spots we shot were the “Boys in the Bathroom” spot and a Jerry Carrol “Hard Sell. They were shot on the same day. The “Bathroom” was the mens room near the Cafeteria at Pratt Institute.

The lyrics to the “When You Think You’re Ready, Come Down to Crazy Eddie” song were written by a grateful Crazy Eddie customer – initially as a folk song. The acapella singing was written and performed by myself and my friends Jeff Gottschalk and John Russo, and was vaguely inspired by Dion’s “A Sunday Kind of Love”. Jeff went on to write songs for Dianna Ross and Cher, and currently performs with the Rascals. John teaches music in a public school district on Long Island.

The first TV spots with Jerry Carrol were shot in the Village store, overnight after the store was closed.

I initially proposed ending the spots with the line, “Crazy Eddie – the MAN is Insane!” Eddie actually took personal offense at this. We eventually settled on, “Crazy Eddie, his prices are insane!”

I hired unemployed, former Korvettes ad manager Larry Miller to buy our television time. He had just started his own little one man media buying company out of his apartment in the East 60’s. It wasn’t long before his Corinthian Communications became one of the largest media buying services in the world.

The first TV spots aired on Mary Hartman, Mary Hartman.

Crazy Eddie persuaded many New York television stations to stay on the air overnight, by offering to buy advertising (usually \$10 a spot or less). We also started sponsoring local movies, including Casablanca, filling the commercial breaks with spots and our spoofs of the movies.

For many years Crazy Eddie was the largest volume buyer of radio time in New York City. Among the account executives calling on me regularly were Mel Karmazin, Judy Ellis, Steve Dinitz, Mike Kakayonis and others.

Crazy Eddie never ever bought any advertising on 77-WABC.

The chicken costume (it was a chicken, not an ape, Tom) was sposed to be a turkey for a Thanksgiving spot. Rubies Costumes delivered the wrong outfit. We shot it as a goof. But, then again, so were most of the spots.

Every radio station had a stand-by spot carted up and ready to go called Crazy Eddie’s Blizzard Blitz. Whenever winter weather got extremely severe I would call directly in to each studio and authorize the on-air personalities to run those spots, which claimed, “if you’re crazy enough to

come out in this weather, Crazy Eddie is crazy enough to give you the most unheard of crazy deal ...”

Once Eddie and I had lunch with Don Imus at the Swiss Center in Rockefeller Center. The Swiss Center was the restaurant run by the Swiss Embassy featuring fine Swiss cuisine. Eddie ordered a cheeseburger. Imus ordered an AMERICAN Cheese sandwich. The waiters were flabbergasted, but they brought the food.

The major dealer for Cerwin-Vega speakers, Crazy Eddie had the honor of dispensing with those giant subwoofers that had been used to create “Sensoround” in theaters all over the country for the movie Earthquake. Many of those subwoofers were installed in major clubs around the City, most notably - Studio 54.

I made arrangements with the producers of Saturday Night Fever to shoot a scene in the Crazy Eddie Record and Tape Asylum on Kings Highway. Eddie’s brother in law Bennie shot it down. He was appalled that I would want to shut the store down for a day to shoot a movie. Such was the mentality of that place. I did, however get a Crazy Eddie commercial featured in the movie Splash. Carson productions also featured Crazy Eddie commercials in their TV’s Greatest Commercials special with Dick Clark and Ed McMahon.

The Crazy Eddie spoof of Saturday Night Fever was shot at the 2001 Odyssey House, same as the movie. It was easy to duplicate the lighting – each of the lights from original movie shoot had melted holes in the ceiling.

Our spoof of Superman got Warner Brothers mad and they sued us. The NY Post headline read, “It Takes Superman to Stop Crazy Eddie”. Eddie countered with threats of halting all sales of Warner owned Atari video games (we were the largest dealer), and we settled.

Crazy Eddie was responsible for the demise of what was then known as the “Fair Trade Laws”, where manufactures dictated the prices at which retailers could sell their products.

Crazy Eddie was primarily responsible for the demise of Blue Laws (that prevented retailers from opening on Sunday, by being one of the first major retailers to open on Sundays, not to mention Christmas, New years and Thanksgiving. Paramus was the only regional location where blue laws remain today. Once a Crazy Eddie manager was arrested for going into the Paramus store on a Sunday. He was only there to retrieve his wallet, accidentally left there the day before. I remember the first time we decided to open on Christmas Day. We all looked at each other and thought, “hey we’re all Jewish – why not”. Was one of the highest grossing days of the year.

After his release from jail, Eddie contacted me and asked me to get involved in rebuilding the company. We gave it a quick shot. A lot of old timers came back to work and we produced a new series of hilarious radio and TV spots. But potential investors were unable to see Eddie Antar

other than as the convicted felon he was – and I don't blame them. Eddie refused to bow out - dooming the new venture. There were a lot of hard feelings and, sadly, a whole lot of the original players are no longer talking to each other.

There's much, much more – hardly enough bandwidth for it all. Hope you all enjoyed reading this as much as I enjoyed typing out these great memories.

## The Crazy Eddie Fraud

The Crazy Eddie fraud may appear smaller and gentler than the massive billion-dollar frauds exposed in recent times, such as Bernie Madoff's Ponzi scheme, frauds in the subprime mortgage market, the AIG bailout, and Goldman Sach's failure to disclose. However, our 18-year crime spree conducted in the light of day serves as a fascinating case study of the multiple methods of deceit that white collar criminals routinely engage in. The evolution of the Crazy Eddie crime drama illustrates how petty, easily rationalized criminal infractions can escalate into serious and complex frauds and conspiracies, without so much as a thought given to concepts such as morality, ethics and justice. Morality, ethics and justice are for the other guys - the victims.

## Three Easy Steps from Skimming Profits to Accounting Fraud, Securities Fraud, and Conspiracy

Our Crazy Eddie crime spree evolved in three phases:

- (1) 1969-1979: Skimming and under-reporting income (tax fraud) prior to the big plan to go public
- (2) 1980-1984: Gradually reducing skimming to increase profit growth in preparation for the initial public offering, i.e., committing securities fraud by "going legit"
- (3) 1984-1987: As a public company, overstating income to help insiders dump stock at inflated prices using a variety of fraudulent tricks

"The Panama Pump" -- money laundering to increase revenues and reported profits

Fraudulent asset valuations -- inflating inventory assets to increase reported profits

Accounts payable cut-off fraud – decreasing accounts payable liabilities to increase reported profits

Debit memo fraud -- concealing liabilities and expenses to increase reported profits

Covering up crimes by changing financial statement disclosures

## Phase 1: Everybody does this, right?

In 1971, at the age of fourteen, I began my employment at Crazy Eddie as a stock boy. From the very beginning, I was involved in cash skimming and overstating insurance loss claims. This was how the company did business, and I never once questioned our methods.

As a private company from 1969 to 1979, Crazy Eddie's primary frauds were:

- Tax evasion (skimming cash sales from customers to avoid income and sales taxes)

- Evading payroll taxes by paying employees in cash "off the books" rather than reporting income to the Internal Revenue Service, and

- Reporting phony or exaggerated insurance claims to increase profits.

From 1975 to 1980, I attended Bernard M. Baruch College and majored in public accounting. Eddie Antar and other family members believed that my formal college education in public accounting would help them execute more sophisticated financial crimes in the future. Therefore, the Antar family paid my tuition and paid my full-time salary while I attended college. I continued working at Crazy Eddie at nights, weekends, holiday breaks and summer vacation.

In 1980, I graduated Magna Cum Laude and was on the Dean's List. The Antars were ready to take full advantage of my accounting education by making me Crazy Eddie's de facto Chief Financial Officer. This position allowed me to execute more sophisticated crimes on behalf of the family.

## Phase 2: Building a bigger and better fraudulent enterprise

Around 1980, we decided to go public. We reasoned that with Crazy Eddie as a public company, we could unload our stock at inflated prices on unsuspecting victims. This would be more profitable than skimming cash sales, tax evasion, and paying employees "off the books." We anticipated getting a "bigger bang for the buck" by inflating earnings as a public company.

When a public company reports a profit, those earnings are divided by each share of common stock outstanding to compute earnings per share. If a company reported a \$1 million profit and has 1 million shares outstanding, its earnings per share is \$1.00 per share: \$1 million profit divided by 1 million shares outstanding.

A public company's stock is traded at a multiple of earnings known as the "price earnings ratio" or P/E ratio. If the stock in the above example trades at \$30 per share, its P/E ratio is 30: \$30 price per share/\$1 earnings per share = 30 P/E.

If that company's management inflated its earnings by \$1 million or \$1 per share, it would report earnings of \$2 million or \$2 earnings per share. Assuming the P/E ratio remains at 30, if the earnings were now \$2 per share, the price per share would increase to \$60 (30 P/E x \$2 earnings per share = \$60 price per share). The company's market capitalization would increase by \$30 million (\$30 price per share x one million shares outstanding = \$30 million). All things being equal, inflating earnings by only \$1 million or \$1 per share added \$30 million to the company's market cap. Insiders can then pocket \$30 per share of ill-gotten gains.

Before Crazy Eddie went public, all of the shares were owned by the Antar family. If the Antar family still owned one million shares of stock trading at a P/E of 30, if we artificially inflated earnings by one million dollars or \$1 million per share, our collective wealth would have increased by \$30 million. Thus, this small one million dollar deception created \$30 million of fictitious wealth! By comparison, skimming one million dollars off of sales would only save about \$300,000 of income taxes, assuming a 30% tax rate.

This shows how inflating earnings by one million dollars has a disproportionately large effect on increasing shareholder wealth--\$30 million in market capitalization. Furthermore, faster growing companies are awarded with even higher P/E ratios by the stock market, which translates into even higher stock prices, demonstrating the importance of proper allocation of fraud-tainted funds.

### "Securities fraud by going legit"

Before the IPO, all our illegal skimming of cash sales had to stop. As a public company, Crazy Eddie would need to report growing profits so investors would be willing to pay higher prices for Crazy Eddie's stock, which we were eager to sell. So ironically, to prepare for our infamous future as a public company, we needed to "legitimize" the business, i.e., "go legit."



Around 1980, I helped devise a plan to gradually reduce Crazy Eddie's skimming while artificially increasing the growth of reported profits. This would create the appearance of a thriving, growing company.

That same year, I passed the CPA examination with a 90% and scored in the top 1% in the country.

### **Working for Crazy Eddie's auditors**

In 1981, I started working for Penn & Horowitz, the accounting firm that audited Crazy Eddie's books and records. I continued working at Crazy Eddie to help implement our plan to turn Crazy Eddie into a public company. Since I was not permitted under auditing standards to work for both Crazy Eddie and its auditors, the Antars paid me off the books to conceal my employment.

My work at Penn & Horowitz served two purposes:

- (1) To fulfill my auditing experience requirement to obtain my CPA license
- (2) To learn how to take advantage of auditors, especially important if Crazy Eddie were to become a public company.

In June 1984, I left Penn & Horowitz and officially began working for Crazy Eddie again. I was no longer compensated by the company in cash.

Around the same time, Crazy Eddie replaced Penn & Horowitz with Main Hurdman, a major accounting firm. (Note: In 1986, Main Hurdman merged with Peat Marwick Mitchell to become Peat Marwick Main (PMM). In 1987, that accounting firm became known as KPMG, after another merger). In 1985, I finally obtained my CPA license.

### **Look, more profits!**

From 1980 to 1984, Crazy Eddie gradually reduced its skimming from approximately \$3 million per year in fiscal year 1979 to nearly zero in fiscal year 1984. As a result of the gradual reduction in skimming, Crazy Eddie's reported pro forma annual profits grew from \$1.7 million in fiscal year 1980 to \$8.0 million in fiscal year 1984. If we factor in new store openings during the same period, Crazy Eddie's pro forma profit per store grew from \$219,975 per unit in fiscal year 1980 to \$617,737 per unit in fiscal year 1984.

Without the reduction in skimming, Crazy Eddie's pro forma profits only grew from \$4.7 million in fiscal year 1980 to \$8.0 million in fiscal year 1984. Crazy Eddie's pro forma profit per store only grew from \$606,122 per unit in fiscal year 1980 to \$617,737 in fiscal year 1984. Crazy Eddie's real per unit profitability was hardly growing at all, except in the minds of unsuspecting investors who were unaware that we simply reduced our skimming to enhance our so-called growth. (See table 1 below).

As Crazy Eddie gradually reduced its skimming, the company could no longer pay its employees in cash or off the books. Therefore, all employees had to be compensated by check or "on the books" and their entire income had to be reported to the IRS. The company now had to pay its share of payroll taxes, while employees were required to pay both payroll and income taxes.

From 1969 to 1979, Crazy Eddie typically paid its managers a minimal salary by check and the balance in cash. The company did not pay employees exclusively in cash, just in case we needed to terminate their employment or they got injured on the job, in which case they could receive unemployment compensation or disability insurance payments.

For example, a department manager was paid \$15,000 legitimately by check and another \$35,000 in cash. This employee would have received about \$48,500 per year in take home pay computed as follows: cash compensation of \$35,000, plus check compensation of \$15,000, less combined payroll and income taxes of about \$1,500. If we had paid the department manager \$50,000 entirely by check, he would have less take home pay due to the added tax burden. His net take home pay would have been about \$40,000 per year (gross check compensation \$50,000 less combined payroll and income taxes of \$10,000).

In the transition to a public company, we grossed up our employees' compensation to keep their net income the same, even though it would now be subject to taxes. For example, we increased the department manager's salary to \$65,000 per year, paid by check, and subject to taxes. As a result, Crazy Eddie's books and records reflected over 100 employees receiving significant raises in the years prior to taking Crazy Eddie public.

Both external audit firms Penn and Horowitz in 1980-83, and Main Hurdman in 1984, noticed that many employees who were previously paid what seemed to be extremely low wages (considering their positions and responsibilities), had received raises in multiples of 3 to as many as 20 times their previously reported salaries. The auditors did not know that Crazy Eddie management was "grossing up" their employees' total check compensation to make up for the loss of "off the books" compensation.

The gullible auditors accepted our silly explanation that our employees had sacrificed many years working at below average wages for the opportunity to be part of what they hoped might become a growing public company.

### **Phase 3: Crazy Eddie goes public, stock prices soar**

On September 13, 1984, Crazy Eddie had its initial public offering (IPO) and investors quickly gobbled up 1.7 million newly issued company shares at \$8 per share.

The Antars did not unload any of their stock in the IPO. However, in the following three years, family members unloaded most of their shares and pocketed over \$90 million on proceeds from unsuspecting investors as Crazy Eddie's stock skyrocketed.

#### **Keeping the auditors at bay**

As a public company committing fraud, we needed to keep our auditors on a short leash during the year-end audit. (They did not review our quarterly financial reports). The less time that Peat Marwick Main or PMM (today known as KPMG) had available to audit our books and records, the easier it was for us to dupe them into issuing clean audit opinions on our falsified reports. I made sure PMM did not have enough time to properly complete its audit field work and appropriately examine Crazy Eddie's books and records.

Crazy Eddie's year-end audits were expected to last about eight weeks, and PMM planned to complete its field work in regular increments during that period. By the sixth week (of eight), PMM expected to have about 75% of its field work completed. I made sure this didn't happen by contriving various stalling techniques aimed at slowing PMM down. My goal was that PMM would only have 25% of its work completed by week six, with 75% left to go. To get the work done and satisfy Crazy Eddie's management, PMM would have to skimp on certain key procedures. This plan worked every year.

#### **Taking advantage of the auditor's human frailties**

As a general practice, most large accounting firms use relatively inexperienced kids right out of college to do basic audit leg work. They are supervised by slightly more experienced senior auditors who unfortunately depend on feedback from these inexperienced kids in making informed decisions. During the 1980s, both these kids and their supervisors were mostly young single males between the ages of 22 and 29.

As a 28 year old CPA myself, I understood that audits are very boring and tedious for these young single male auditors. It was difficult for them to pay close attention to their work. It was relatively easy to distract them without ever being blamed for obstructing their work. Rather than overtly interfering, I engaged in a calculated plan to subtly distract them with cute Crazy Eddie employees reporting to me. I encouraged my female employees to flirt and get friendly with their young male PMM counterparts and discuss audit issues with them over lunch and dinner on Crazy Eddie's tab. Meanwhile, I took certain higher level PMM auditors to pick-up bars and other establishments frequented by good-looking women.

Our auditors wasted valuable time getting chummy with our management and female employees rather than paying attention to their jobs. As the scheduled completion of the audit neared, our auditors rushed to complete their field work and failed to undertake key audit procedures which enabled us to easily inflate our reported earnings.

That chumminess also helped us become more likable to our auditors and corrode their professional skepticism. They did not want to believe we were crooks. They believed whatever we told them without verifying the truth. You can steal more with a smile!

1986

### *The "Panama Pump"*

Prior to going public, our main fraud at Crazy Eddie was tax evasion through skimming funds from the company and not reporting those revenues and profits. Now, we planned to launder some of those monies back into Crazy Eddie to inflate profits. We wanted to raise new capital to fund the opening of new stores while keeping the stock price high.

During the first ten months of Crazy Eddie's 1986 fiscal year which ended on March 2, 1986, our comparable store sales increased by approximately 20% over the previous fiscal year. Comparable store sales are a key indicator of the underlying profitability of retailers. It factors out sales increases from opening additional retail units and provides a baseline comparison of revenues from existing stores during two reporting periods.

In December 1985 (first month of the last quarter), we reported a comparable store sales increase of 17%. However, during the last two months of the fiscal year (January and February 1986) our comparable store sales growth slowed to a mere 4% increase over the previous year (January and February 1985). Wall Street analysts were expecting a 10% increase in comparable store sales.

**Note:** Crazy Eddie did not report monthly sales figures, but instead reported quarterly sales right after the end of each quarter but before it reported its profits. However, the company customarily reported December sales separately, to give early indications of holiday sales. In the first week of March, Crazy Eddie reported its final quarter's sales results. It was easy for Wall Street analysts to figure out January and February's sales results, by subtracting December's sales from the final quarter's sales report.

Crazy Eddie's high stock price was based on large increases in same store sales growth. We believed that a failure to meet analysts' projections would have substantially dropped the price of our stock.

As we worried about missing analyst's projections, we wanted to raise about \$35 million in new capital by selling 1.3 million shares to investors in early March. Eddie Antar and Sam M. Antar (Eddie's father) also wanted to dump 800,000 shares of stock (worth about \$20 million). The difference between a 4% increase in sales and the 10% increase in same store sales expected by Wall Street analysts was about \$2.2 million. To meet analysts' expectations, we conceived of a plan called the "Panama Pump".

Most of the \$2.2 million needed to meet our sales targets came from secret bank accounts in Israel (\$1.5 million) and safe deposit boxes in the USA (\$500,000 cash) which contained previously skimmed funds. The balance of the needed comparable store sales came for a \$200,000 sale of merchandise to another retailer.

The funds in Israel were wired to Panama (both countries were bank secrecy jurisdictions). After the funds were transferred to Panama, a family member withdrew those funds from Bank Leumi in the form

of bank drafts or non-negotiable instruments, to avoid violating disclosure laws on the movement of funds into the country. Eventually those funds were deposited in Crazy's Eddie's bank accounts and reported as sales.

While the auditors knew we had poor internal controls, they believed we had at least a minimal level of controls to insure that store bank deposits came from customer revenues and no other source. They trusted we had sufficient procedures in place to insure that all store deposits were backed by documentation from authentic sales invoices to customers.

The auditors should have performed tests of internal control procedures by tracing funds deposited in our store bank accounts back to the source, which was supposed to be actual customer invoices, to determine if adequate controls were in place to insure accurate reporting of sales.

Obviously, we had no invoices backing up the \$1.5 million funds transferred from Panama and the \$500,000 in cash deposited into store bank accounts reported as "revenue." Furthermore, the Panama drafts were issued in \$25,000, \$50,000, \$75,000, and \$100,000 amounts, whereas Crazy Eddie's average sales were about \$300 per customer. The auditors did not examine our bank deposits for unusual transactions in large dollar amounts, and these unusual transactions weren't even backed up by false invoices.

The funds from Panama and safe deposit boxes were deposited into store bank accounts a day after the fiscal year ended, on a Monday. Saturday and Sunday's checks from customers were regularly deposited on Mondays too. Therefore, it appeared we had an increase of over 90% in comparable store sales in the last two days of the fiscal year. That, by itself, should have been a red-flag for the auditors.

Auditors normally perform what is known as "sales cut-off tests" at year-end to insure that revenues in the current year are not improperly shifted to the next year and revenues from the next year are not improperly shifted to the current year. For example, unusually large amounts of funds from sales claimed in the days before the end of the fiscal year, but not deposited into company bank accounts until after the fiscal year ended may indicate an early recognition of revenues by shifting sales from the following year to the current year.

By design, our auditors did not have time to perform that key audit procedure. My female employees had distracted them from their tasks, and they were then rushing to complete their audits. In this manner, we avoided detection and reported a 10% increase in our January-February 1986 comparable store sales. Demand for Crazy Eddie shares were so high that we were able to sell 1.495 million shares or 195,000 more than anticipated at \$26.375 per share and raise \$39.431 million in fresh capital. Eddie and his father Sam M. Antar sold 920,000 shares or 120,000 shares more than anticipated and pocketed \$24.3 million in proceeds.

Stock prices usually drop as companies raise new capital because it dilutes existing shareholder interests. Similarly, when insiders unload huge amounts of shares, prices tend to suffer. But because the market liked our inflated comparable store revenue, our share prices held up.

By putting back \$2 million dollars of previously skimmed funds back into the company, Crazy Eddie raised at least an extra \$5.143 million selling 195,000 additional shares. Eddie and his father pocketed an extra \$3.2 million in stock sales. Not bad for a \$2 million “reinvestment.”

### *How do I cheat thee, let me count the ways*

In fiscal year 1986, we had already artificially inflated our earnings by \$2,000,000 from fictitious sales resulting from the Panama Pump scheme (\$1,500,000 million from the Panama bank drafts and \$500,000 in currency from safe deposit boxes). The \$200,000 sale to another retailer inflated comparable store sales but did not inflate our reported profits, since the merchandise was sold at cost. We inflated our profits by overstating our reported profits and understating our accounts payable (amounts owed to vendors). Fraudulently increasing the value of inventories and fraudulently decreasing liabilities such as accounts payable inflates reported income or understates reported losses.

### *Cozying up with a major vendor*

Crazy Eddie had a very cozy relationship with a vendor known as Wren Distributors (Wren). We were Wren's largest customer, accounting for 35% of its revenues. We purchased over 10% of our merchandise from Wren. In order to inflate our inventory without adding to our accounts payable, I asked Wren to ship us \$3 million to \$4 million in merchandise before year-end, but to hold off billing until after the auditors completed the year-end audit. Because the merchandise was included in the year-end inventory count without recording the corresponding accounts payable to Wren, we were able to inflate income by \$3 million to \$4 million.

### *Inadequate audit procedures equals inflated inventories*

Peat Marwick Main's (PMM) lax audit procedures facilitated our crimes. At year-end in fiscal years 1985 to 1987, PMM only observed the inventory counts in roughly half our stores, leaving us virtually free to inflate inventory counts in other stores. Because the auditors only took random sample test counts of inventories in the stores they observed, we were able to inflate counts in those stores as well.

Our auditors did not have a clue as to the accurate level of inventory. When boxes were stacked high and stored several layers deep, our employees would climb the boxes, count the inventory, and shout out the inflated inventory numbers. Our auditors would duly record the inflated test counts.

We were extremely courteous to our auditors. During breaks, we bought them coffee and ran small errands for them. Our employees would volunteer to make copies of their audit test counts. Enjoying the favors and feeling good about us, they failed to take copies of the entire store inventory counts with

them after leaving the store premises. They and only took copies their "test count" samples. Therefore, we knew exactly which inventory counts to inflate since we knew which sample test counts the auditors had taken. These lax audit procedures allowed us to overstate our inventories by \$10 to \$12 million.

### *Too much fraud*

Ultimately, our various schemes had the potential of inflating profits by \$15 to \$18 million: \$1.5 million in laundered funds received through Panama, \$500,000 in currency received from Antar safe deposit boxes, \$10 million to \$12 million in inflated inventory amounts, and \$3 million to \$4 million from understating amounts owed to Wren. We had already reported the first three quarter's financial results. Therefore, the inflation of income had to be applied to fourth quarter earnings.

If we inflated our profits as initially planned, our fourth quarter revenue would have increased \$2 million from \$97.6 million to \$99.6 million due to the Panama Pump and the safe deposit box schemes. We would have reported gross profits of approximately \$34.6 million to \$37.6 million on revenues of \$99.6 million and a whopping gross profit margin of 35%, far in excess of our historical margins.

We were so successful in overstating inventory and understating accounts payable that our auditors believed that we had substantially understated profits during the first three quarters of fiscal year 1986. Eddie and I had discussions with the auditors regarding our dilemma. The issue of accounting fraud never came up.

The auditors believed that we were just being overly cautious in reporting our numbers. An audit partner called our perceived conservatism "accountant's liability insurance" because "no public company got sued for underreporting earnings." He advised us to establish \$8 million in excessive reserves to reduce the value of our reported inventory and reduce our excessive profits. He called that excessive reserve a "rainy day fund" to be used as needed to create income in future accounting periods. Therefore, our auditors unwittingly helped us reduce the level of our inflated earnings by \$8 million, so we inflated our 1986 income by \$7 to \$10 million, instead of \$15 to \$18 million.

We rewarded our auditors very dearly after that 1986 audit. We gave extra them extra consulting work on our computer system implementation and employee benefit compliance which provided them an extra \$1 million in fees. The annual audit fee was only approximately \$150,000.



1987

### *Channel switching*

In fiscal year 1987, we devised a new scheme to continue inflating comparable store sales by selling or trans-shipping merchandise to other retailers and wholesalers who were not end-users but re-sellers. While no specific accounting guidance existed for the computation of comparable store sales, it was widely assumed that such sales were made in stores open during both the current and previous year's reporting period and were made to end-user customers - not trans-shipped to other retailers or wholesalers. In any case, those trans-shipping sales originated from the main office and not at the store level.

We sold one such wholesaler, known as Zazy International, over \$20 million in merchandise. About \$10 million of such sales were improperly reported as originating from comparable stores. Zazy issued a series of checks in small denominations for their purchases of merchandise from Crazy Eddie instead of issuing one large check per order. We deposited the small checks (usually in denominations of \$10,000 - \$20,000) into the bank accounts of the individual stores to make it appear that those sales originated at the store level and not in our main office.

### *Desperate times, desperate measures*

From the early 1970's to 1984, Crazy Eddie was a profitable private company. Our frauds were focused primarily on skimming cash to avoid paying income and sales taxes. As a public company from 1984 to 1986, our frauds concentrated on inflating profits or overstating income. However, by Q3 1987, we started losing money for the first time in almost two decades because of increased competition and a steep decline in consumer electronic prices which reduced our revenues. We became desperate to report profits instead of losses.

### *A fraud made easy by auditor trust*

Our auditors' work papers were left behind in locked boxes on our premises during the audits. We gained access to these papers after learning that the audit manager routinely left his keys in a small 2" paper clip box hidden in an unsecured desk. Knowing exactly what our auditors were doing, it was relatively easy for us to falsify inventory and accounts payable numbers in excessive amounts.

### *Massive inventory inflation*

We continued to take advantage of our relationship with Wren Distributors. I pressured Wren to ship us about \$5 million to \$7 million in merchandise before year-end. The merchandise was included in the year-end inventory count without being included in the amount owed to the vendor.

1987 was our year of desperation. We inflated store level inventories by \$15 to \$20 million. In stores that existed during both 1986 and 1987 inventory levels increased 94% from \$31.5 million to around \$61.0 million mainly as a result of inflating inventories. (See table 3 below).

On April 26, 1987, the audit partner questioned me about the unusual increase in store level inventories during a period of dropping prices. I convinced him not to order a re-count of store inventories and to sign off on the audit on April 28 or two days earlier than planned, despite the fact that major audit work was incomplete.

### *Debit Memo Fraud*

The massive inventory inflation and other schemes were not enough to avoid reporting major losses. So we conceived of a plan to generate \$20 million in phony debit memos which were supposed to be charge backs or offsets against amounts we owed to vendors for items such as advertising rebates, volume discounts, and other reimbursements due back to Crazy Eddie.

For example, let's say Crazy Eddie purchased \$30 million from Sony during the year and our accounts payable ledger at year-end reflected that we owed Sony \$10 million for unpaid purchases. However, our accounts payable ledger did not yet reflect \$1 million in volume rebates due from Sony. That volume rebate is considered a "charge-back" to Sony or an "offset" against amounts we owed to Sony. Because the volume rebate reduced the amount of money that Crazy Eddie owed Sony, it is essentially income to Crazy Eddie.

Up to fiscal year 1986, we waited until vendors like Sony issued what is known as a credit memo to acknowledge "charge-backs" or "offsets" to accounts payable for items such as volume rebates. Even if Sony already owed us the volume rebate, Crazy Eddie did not reduce its accounts payable or recognize income from the volume rebate until we actually received a credit memo from Sony.

Our accounting policy for "purchase discounts and trade allowances" as disclosed in the company's footnotes to the financial statements were:

"Purchase discounts and trade allowances are recognized when received."

We could not reduce our accounts payable or amounts owed to vendors (thereby increasing profits) until a credit memo was actually received from a vendor for purchase discounts and allowances.

In 1987, we started issuing debit memos to claim "charge-backs" for items such as volume rebates, instead of waiting to receive credit memos from our vendors. Upon the issuance of a debit memo, our accounts payable immediately reflected lower amounts owed to vendors and therefore increased our income.

Our accounting new policy for “purchase discounts and trade allowances” as disclosed in the company’s footnotes to the financial statements were:

"Purchase discounts and trade allowances are recognized when earned."

In the past, we waited weeks for a credit memo to arrive from our vendors. By changing our accounting policy for purchase discounts and allowances we could recognize the purchase discounts and trade allowances "when earned." Under Crazy Eddie's new accounting policy, we did not have to wait until the vendor issued a credit memo to record purchase discounts and trade allowances and reduce our accounts payable. With our new policy, we immediately issued a debit memo claiming that such amounts were owed to us by the vendors.

The debit memos made it easy for us to issue phony charge-backs to vendors which helped us inflate our income. Fraudulently decreasing liabilities such as accounts payable inflates reported income or understates reported losses.

In 1987, we reduced our reported accounts payable from about \$70 million to \$50 million, almost 30%, through the issuance of \$20 million in phony debit memos. We were desperately trying to cover up massive losses.

Fortunately, the audit staff member who was responsible for leg work on accounts payable had no prior experience in auditing accounts payable and only started working for PMM six months earlier. He first learned about charge backs to vendors against amounts purportedly owed to them mostly from me. He did not even begin verifying accounts payable balances until April 28, 1987, the very same day that PMM issued a clean audit opinion. He had spent too much time engaging in small talk with female employees assigned to distract him.

In sworn testimony, he answered the questions below by Stephen Howard, Attorney from Milbank, Tweed, Hadley, & McCloy, who represented the Oppenheimer-Palmieri Fund, L.P., one of the major shareholders who in November 2007 took over Crazy Eddie in a hostile takeover:

Question: There’s a date at the bottom of the page which appears to be 4/28/87. Do you see that?

PMM staffer: Yes, I do.

Question: Is that your handwriting.

PMM staffer: Yes, it is.

Question: What does that signify?

PMM staffer: It was my policy to date my work papers when I began to perform test work.

Question: So that tells us you started this work on the 28th but it doesn't tell us when you finished it?

PMM staffer: That is correct.

PMM already had already signed off on Crazy Eddie's audit on April 28, 1987 and the young inexperienced auditor started his test work that same day. In his other sworn testimony, he said that he continued his field work for more than one day, but couldn't recall how many days it took him to complete his work.

### *No incentive*

Because the audit was officially completed, PMM had no incentive to continue its work. It only examined our accounts payable or amounts we owed to three major vendors out of thousands of vendors. Each of those three vendors reported significant discrepancies in amounts they claimed that Crazy Eddie owed them due to our issuance of phony charge backs to vendors in the form of debit memos. For example, Sony claimed that we owed it about \$5 million more than we claimed we owed it because Sony never acknowledged receiving any of our debit memos. The auditors never contacted any of the companies about any of the discrepancies.

On May 22, 1987, or 24 days after PMM issued its clean audit opinion of Crazy Eddie's books and records, a senior staff member finally conducted an interview of our accounts payable manager (a female co-conspirator). She lied to him about our phony debit memos. However, it was too late for him to check on the accuracy of her representations since the audit officially concluded on April 28, 1987.

### *Key audit procedures missed*

In previous years, we generated an accounts payable aging schedule for our auditors to review. That schedule provides detailed information about every invoice owed to vendors, any offsetting charge backs to vendors such as debit memos, and how long those items have remained outstanding.

However, for fiscal year 1987, we did not generate this analysis. Our auditors were unable to determine the how long the phony debit memos were on our books and records and why, after the passage of time, they were not sent to vendors to claim deductions against amounts owed to them.

The sheer volume of phony debit memos caused our books and records to show many vendors owing us money, rather than the other way around! Those negative accounts payable balances were red flags that the auditors never properly scrutinized.

An excerpt from PMM's work papers said:

"... traced all debit memos into A/P status report as of 03/01/87. No further work necessary."

An "A/P status report" simply lists all invoices owed to vendors and offsetting debit memos. Therefore, the debit memos were traced to a report listing the phony debit memo. Our auditors simply traced the phony debit memos to the books and records that reflected them, but did not do any follow up work to confirm their validity.

## Crazy Eddie Fraud Numbers

**Table 1: The effect of the gradual reduction on skimming had a substantial effect on pro forma earnings growth and store unit productivity:**

Effect of gradual reduction in skimming on reported pro forma income	Fiscal year ended 05/31/1980	Fiscal year ended 05/31/1981	Fiscal year ended 05/31/1982	Fiscal year ended 05/31/1983	Fiscal year ended 05/31/1984
Reported income before pension contribution & income taxes	\$1,709,000	\$2,273,000	\$3,404,000	\$4,637,000	\$7,975,000
Skimming	\$3,000,000	\$2,500,000	\$1,500,000	\$750,000	\$0
Adjusted income before pension contribution & income taxes	\$4,709,000	\$4,773,000	\$4,904,000	\$5,387,000	\$7,975,000
Reported growth in income before pension contribution & income taxes from previous year	-	33.0%	49.8%	36.2%	72.0%
Adjusted growth in income before pension contribution & income taxes from previous year	-	1.4%	2.7%	9.8%	48.0%
Number of stores open at end of period	9	10	10	12	13
Average number of stores open during period	7.77	9.22	10.30	11.27	12.91
Reported income before pension contribution & income taxes (Per average number of stores opened during period)	\$219,975.14	\$246,600.43	\$330,609.93	\$411,521.99	\$617,737.92
Adjusted income before pension contribution & income taxes (Per average number of stores opened during period)	\$606,122.25	\$517,828.35	\$476,295.85	\$478,082.59	\$617,737.92
Reported growth in income before pension contribution & income taxes from previous year (Per average number of stores opened during period)	-	12.1%	34.1%	24.5%	50.1%
Adjusted growth in income before pension contribution & income taxes from previous year (Per average number of stores opened during period)	-	-14.6%	-8.0%	0.4%	29.2%

**Note:** Average number of stores opened during period takes into account new store openings and store closings during the year and the average number of days the stores were operating.

**Table 2: Crazy Eddie earnings inflation fraud**

Pre-tax (in \$ millions)	Fiscal year ended 02/29/1984	Fiscal year ended 03/03/1985	Fiscal year ended 03/02/1986 (low range)	Fiscal year ended 03/02/1986 (high range)	Fiscal year ended 03/01/1987 (low range)	Fiscal year ended 03/01/1987 (high range)
<b>Reported pre-tax earnings</b>	6,582	13,343	26,512	26,512	20,597	20,597
Warehouse inventory inflation	0	-3,000	-6,000	-6,000	0	0
Defective merchandise (reeps) inventory inflation	0	0	-1,000	-2,000	-7,500	-8,000
Store inventory inflation	0	0	-3,000	-4,000	-15,000	-20,000
Accounts payable cut-off fraud	0	0	-3,000	-4,000	-5,000	-7,000
Reeps cut-off fraud	0	0	0	0	-1,000	-2,000
Phony debit memos	0	0	0	0	-20,000	-20,000
Cash infusion from previously skimmed funds used to inflate same store sales	0	0	-2,000	-2,000	0	0
<b>Annual total earnings inflation</b>	<b>0</b>	<b>-3,000</b>	<b>-15,000</b>	<b>-18,000</b>	<b>-48,500</b>	<b>-57,000</b>
Less: cumulative effect of previous year's fraud	0	0	3,000	3,000	15,000	18,000
<b>Effect of fraud on current year's pre-tax income before audit adjustments</b>	<b>0</b>	<b>-3,000</b>	<b>-12,000</b>	<b>-15,000</b>	<b>-33,500</b>	<b>-39,000</b>
Excess reserves approved by auditors to smooth reported earnings	0	0	8,000	8,000	8,000	8,000
<b>Effect of fraud on current year's pre-tax income after audit adjustments</b>	<b>0</b>	<b>-3,000</b>	<b>-4,000</b>	<b>-7,000</b>	<b>-25,000</b>	<b>-31,000</b>
Cumulative shortage claimed by new management in 12/87	-	-	-	-	-70,000	-70,000

**Table 3: Analysis of reported store inventories (stores included in included in comparable sales) for fiscal year 1987**

<b>Gross inventory before adjustments (in \$ thousands)</b>	<b>Fiscal year ended 03/02/1986</b>	<b>Fiscal year ended 03/01/1987</b>	<b>Percentage increase</b>
Gross inventory of comparable stores not observed by auditors	7,972	23,530	195.16%
DNS Audio (closed FYE 1987)	1,758	0	-
Gross inventory of comparable stores observed by auditors	21,950	37,470	70.71%
<b>Gross inventory of comparable stores</b>	<b>31,480</b>	<b>61,000</b>	<b>93.77%</b>



## The fall of Crazy Eddie

### Eddie Antar's success brings jealousy among his immediate family members

Crazy Eddie was tightly controlled by Eddie Antar and his father Sam M. Antar (co-founders of the company). The demise of Crazy Eddie was a direct of internal rivalries, jealousies, and infighting among family members.

The original predecessor company to Crazy Eddie was ERS Electronics. The company was founded in 1969 by Eddie Antar, Sam M. Antar, and Ronnie Gindi (a first cousin). It operated under the name of Sights and Sounds.

In 1970, Sight and Sounds was engaged in a bitter legal dispute with manufacturers over fair trade practices and the company was losing money. Ronnie Gindi did not believe that the company would prevail in its dispute and become profitable in the future.

Ronnie Gindi sold his 1/3 share of ERS to Eddie Antar who afterwards controlled 2/3 of the company. Eddie Antar's majority ownership of ERS ultimately set the stage for future conflicts between him, his father, and the rest of his immediate family.

During the early years, Sam M. Antar, was looked upon as the patriarch of the tightly knit Antar clan. He was the eldest son of my grandparents and the wealthiest family member. ERS eventually prevailed in its legal battle with manufacturers over fair practices. It was renamed Crazy Eddie and became a major commercial success. Since Eddie Antar owned 2/3 of the company compared to his father's 1/3 ownership, he became much wealthier than his father.

Eddie Antar was a very charismatic person compared to his stodgy "old school" father. Many family members and close friends felt more comfortable seeking advice and help from Eddie than from his father. Ultimately, Eddie Antar assumed the mantle as the de facto patriarch of the Antar clan due to his enormous wealth, leadership skills, and charisma.

Sam M. Antar was jealous of his son's success and bitter that he lost his status as the leader of the Antar clan. Mitchell and Allen Antar (Eddie's brothers) and Ben Kuszer (married to Eddie's sister) sided with Sam M. Antar.

Mitchell and Allan Antar received generous salaries and benefits while working at the company. Ben Kuszer was Eddie Antar's 50% partner in a highly profitable record and tape concession called Benel Distributors that operated in the Crazy Eddie stores. They all received a generous amount of cash compensation from the skimming of cash sales, too. However, they had no ownership of Crazy Eddie which was the major source of wealth for the Antar family.

Eddie's brothers and brother-in-law felt that they would have to wait until Sam M. Antar died in the future to inherit a share of the company. With 5 daughters, Eddie Antar had no intention of giving away any of his ownership of the company to them.

Jealousy grew among family members at Eddie Antar's relative success. Sam M. Antar hatched a plan to publicly humiliate his son Eddie in an effort to regain the mantle as patriarch of the Antar clan.

### **December 31, 1983: New Year's Eve massacre**

Eddie Antar was a ladies man and was not faithful to his first wife Debbie Rosen Antar (known as Debbie # 1). He had a mistress named Deborah Ehrlich (known as Debbie # 2).

On New Year's Eve, Sam M. Antar was tipped off that his son Eddie planned on spending the night with Debbie # 2. Sam M. sent his daughter Ellen Kuszer and daughter-in-law Robin Antar (Mitchell Antar's wife) to accompany Debbie # 1 to Manhattan and catch Eddie in the act of partying with his mistress.

Debbie # 1 confronted Eddie walking to a stretch limousine with Debbie # 2 and a huge street fight erupted between them. Afterwards, Eddie vowed revenge against his father and immediate family members for setting him up and deep rifts emerged within the Antar clan.

### **Money was the glue that kept the Antar clan together**

Ultimately, Eddie Antar cooled down. Despite their internal rivalries, Eddie Antar and his immediate family had been engaged in a massive fraud for 15 years. The crowning achievement of their crimes was the planned public offering of Crazy Eddie stock several months in the future. The prospect of dumping huge amounts of stock at inflated prices on unsuspecting investors kept the Antar family together to continue committing more crimes, despite what happened on New Year's Eve.

In preparation for that offering, Sam M. Antar gifted large amounts of his stock to his son's Mitchell and Allen, his son-in law Ben Kuszer, and their children. Eddie Antar gifted stock to his five daughters, but did not gift any of his stock to his brothers, sister, brother in law, and their children.

Eddie Antar and Debbie Rosen Antar (Debbie # 1) divorced shortly after the famed New Year's Eve massacre and Eddie married his former mistress, Deborah Ehrlich (Debbie # 2).

### **Long dormant rifts among Antar family members come to the surface again**

By early 1987, the Antar clan sold most of their Crazy Eddie stock and pocketed approximately \$90 million in proceeds. At that time, Crazy Eddie started losing money for the first time in almost two decades. The value of Crazy Eddie stock tanked from a split adjusted price of \$80 per share to around \$5 per share. The remaining shares of Crazy Eddie stock held by the Antars had relatively little value.

The company's future prospects were dim because of dropping consumer electronics prices and increased competition. The economic ties that kept the family together to continue committing crimes after the infamous New Year's Eve massacre faded away.

In April 1987, Sam M. Antar instigated Debbie Rosen Antar (Debbie # 1) to sue her former husband Eddie Antar for fraud and wanted the courts to void her divorce settlement. Unlike 1984, where the family worked out its differences and cooperated for the sake of the business, Eddie purged his father, brothers, brother-in-law, and others closely allied with their faction from the company.

The family infighting was blamed for contributing to Crazy Eddie's weak financial performance in 1987. Eddie and I heard rumors of a possible hostile takeover by parties interested in buying the company "on the cheap." Investors had no idea that Crazy Eddie was a massive fraud.

Eddie and I were concerned that a hostile takeover of Crazy Eddie could ultimately expose the family's frauds. We needed a friendly party to help us keep control of the company. Our plan was to raise outside money and take the company private with an unsuspecting third party in an effort to cover up our frauds. We would not have to invest a dime of our own money to take over the company, since the new investors and Wall Street investment banks could potentially bankroll a management led takeover of Crazy Eddie.

In April 1987, I was approached by legendary businessman and billionaire investor Milton Petrie, who wanted to partner with us on a management led buy-out of Crazy Eddie. A couple of weeks later, I was approached by another billionaire, Sam Belzberg, with a similar proposal. Ultimately, Eddie Antar chose Sam Belzberg as a partner to take over the company.

Eddie Antar and I believed that the unsuspecting Belzberg family would give us full latitude to run the business and to cover up our previous frauds. After our planned takeover of Crazy Eddie, we planned on merging the company with another consumer electronics retailer. We would blame any financial problems on the merger.

## **Eddie Antar makes a defensive move to take Crazy Eddie private**

In May 1987, Eddie Antar and the Belzberg family announced a proposed takeover of Crazy Eddie at \$7 per share. However, about a week later, Elias Zinn countered with a takeover bid at \$8 per share. Zinn's bid was not anticipated by us. We feared a hostile takeover of the company by Zinn and started a "scorched earth" policy to destroy all remaining evidence of fraud that we could find.

## **Sam M. Antar's faction sends Arnold Spindler to SEC to rat out his son**

In May 1987, Eddie Antar orchestrated the firing of Arnold Spindler and Abe Grinberg from the company. Spindler and Grinberg were close personal friends of Eddie's brothers, Mitchell and Allen. Spindler and Grinberg later teamed up with Eddie's father and brothers to orchestrate a plan to get

revenge on Eddie for throwing them out of the company. They planned to blame Eddie and his allies remaining at the company for the frauds.

Both Arnold Spindler and Abe Grinberg contacted the Securities and Exchange Commission and told them about a massive fraud orchestrated by Eddie Antar at the company. However, they completely covered up the involvement of Sam M. Antar, Mitchell Antar, Allen Antar, Ben Kuszer, and their other allies in the Antar clan.

Spindler had worked for Crazy Eddie in the early days. He knew about the [skimming](#) of cash sales from Crazy Eddie as a private company. Eddie Antar, Sam M. Antar, Mitchell Antar, and Ben Kuszer shared secret numbered bank accounts in Israel. If the government found out about the skimming, it could bring down both warring factions of the Antar clan. Therefore, Spindler did not tell government investigators about any frauds involving skimming.

Both Arnold Spindler and Abe Grinberg only told government investigators about the various schemes orchestrated to inflate Crazy Eddie's profits as a public company. However, they covered up the involvement of Sam M. Antar, Mitchell Antar, Allen Antar, and Ben Kuszer in those crimes. The government gave both Spindler and Grinberg immunity from their crimes in exchange for their testimony implicating Eddie Antar, me, and his other allies in a massive fraud.

## **[New management takes over Crazy Eddie in a proxy fight and finds inventory shortages](#)**

During August 2007, Elias Zinn formed an alliance with famed turnaround artist Victor H. Palmieri and the Oppenheimer-Palmieri Fund, in an effort to take control of Crazy Eddie. Meanwhile, Eddie Antar and the Belzberg family could not obtain the expected backing from investment banks that they needed to fund a takeover of the company.

On November 6, 1987, Elias Zinn and his partners took over Crazy Eddie and dislodged the remaining faction of the Antar clan from power at the company. Sam M. Antar even voted his shares in support of the Zinn-Palmieri Group. For a while, it seemed like the perfect cover up.

About two weeks after taking over Crazy Eddie, new management took a physical inventory of all Crazy Eddie warehouses and stores. They soon discovered that over \$40 million of inventory did not exist. The Antars had inflated inventory numbers to increase Crazy Eddie's profits as a public company.

Spindler and Grinberg's allegations of fraud at Crazy Eddie were at least partially verified. Dozens of class action lawsuits were filed against the Antar family alleging a massive fraud at Crazy Eddie. However, the main focus of the various lawsuits and government investigations initially centered on Eddie Antar and his allies, not his disgruntled family members due to Spindler and Grinberg covering up their involvement in our fraudulent activities.

## Problems faced by government investigators

At that time, Eddie Antar and I did not know that Spindler and Grinberg were talking to investigators and accusing us of fraud. It was inconceivable to us that Eddie's father and brothers would set us up to take the fall for every one's crimes. Me and other conspirators allied with Eddie Antar lied to government investigators about the existence of fraud at Crazy Eddie and tried to blame new management for orchestrating false allegations.

The government and civil plaintiff investigators faced a "perfect storm" of problems caused by document destruction, poor company records, poor audit documentation, and lying witnesses. The Antar family, who ruled Crazy Eddie for almost 18 years, regularly destroyed potentially incriminating documents. Sales register tapes, internal documents for merchandise purchased with cash, "off the books" payroll records, etc. were routinely destroyed. Copies of year-end inventories observed by the auditors were never saved. In fact, the auditors never kept copies of the full inventories themselves.

Some investigators had their doubts about the truthfulness Spindler and Grinberg's allegations. However, they had difficulty investigating such doubts in the absence of other cooperating witnesses and documents.

## I throw in the towel

In early 1989, I finally learned from subpoenaed documents and testimony that Arnold Spindler and Abe Grinberg were providing false information to government investigators and covered up the involvement of Sam M. Antar, Mitchell Antar, Allen Antar, and Ben Kuszer in those crimes. I passed along that information to Eddie Antar and he started to distance himself from me. Eventually, he told me, "Sammy, you are on your own!" and stopped all contact with me.

On one side, Eddie Antar, my lifelong mentor, abandoned me. On the other side, my uncle Sam M. Antar and cousins Mitchell Antar, Allen Antar, and Ben Kuszer were setting me and Eddie up to take the fall for the frauds at Crazy Eddie. I learned that Eddie Antar had transferred most of his assets overseas and already obtained several phony passports. He was preparing to leave the country for good.

I fired my old attorney and hired Anthony Mautone to represent me in the criminal investigation and Jonathan D. Warner to represent me in the civil actions. On March 8, 1989, Mautone, and I met with US Attorney Dan Gibbons and two FBI investigators in an effort to negotiate a plea bargain agreement. However, the prosecutors were very distrustful of me and did not want to negotiate an acceptable plea bargain agreement because I previously lied to government investigators.

A June 1994 article in the New Jersey Law Journal "Footnote to Crazy Eddie Case: You Talk, You Walk" by Tim O'Brien recounts what happened next:

Because he [Sam E. Antar] initially lied to SEC investigators between the collapse of the company in late 1987 and the spring of 1989 – when Mautone brought him to the prosecutors – it took well over a year to convince the government that his version of what happened represented reality.

The skepticism of the prosecutors, the FBI, the SEC, and the civil lawyers... was compounded by the early testimony of company officials who, according to the SEC's chief litigation counsel Simpson, lied under oath to protect key players.

One of those officers who came in early and testified before the SEC now faces perjury charges. Grinberg and Arnold Spindler, a Crazy Eddie buyer who were the first to come forward in late 1987, pointed a finger at those in the opposite camp after the Antar clan had split in two following Eddie Antar's bitter divorce in the mid-1980s.

Aligned against Eddie Antar, the founder and chief executive officer of the company were his father, Sam M. Antar, his brothers, Mitchell and Allen, and others, who were angered after Eddie Antar was caught cheating on this first wife.

Spindler and Grinberg exculpated Eddie Antar's father and brothers, fingering not only Eddie but Sam E. Antar, who ran the books and dealt with the auditors, Peat Marwick Main & Co. now KPMG Peat Marwick.

"It took us two years almost to convince the government that they had the case upside down, and that they should trust Sam Antar after he lied through his teeth to the SEC during eight days of depositions early on," says Mautone. He adds that he urged his client to cooperate with the U.S. Attorney's office "naked, without any deal on blind faith."

Jonathan D. Warner, who represented me in various civil actions brought by defrauded investors, took the depositions of Arnold Spindler and Abe Grinberg in order to prove that they were lying to government investigators. Grinberg and Spindler gave conflicting testimony and were forced to recant key aspects of their stories when confronted with damning documents, which I had initially withheld from investigators. Both Spindler and Grinberg later admitted to receiving cash payments from Sam M. Antar and Allen Antar to lie to government investigators.

In February 1990, Eddie Antar skipped town altogether and fled the country, rather than comply with a Court order. I continued providing key information to government investigators.

Based on my information, the government ultimately gained access to key documents in Israel which provided evidence of secret Antar family bank accounts through a treaty known as the Hague Convention. One account at Bank Leumi in Tel Aviv showed Eddie Antar, Sam M. Antar, Rose Antar (Sam M.'s wife), Mitchell Antar (Eddie's brother), Ben Kuszer (Eddie's the brother in law), and Debbie Rosen Antar (Eddie's first wife) as co-owners. Bank documents detailed almost \$8 million in cash deposits from

1979 to 1983. This account was never disclosed on their tax returns and all deposits came from skimmed funds from Crazy Eddie.

In June 1992, Eddie Antar was [captured](#) in Yavne, Israel. That same day, FBI agents arrested Mitchell and Allen Antar. There was not enough evidence to bring criminal charges against Sam M. Antar, Ben Kuszer, and other family members due to massive document destruction and statute of limitations issues. Instead, the SEC brought civil actions against them in seeking to recover ill-gotten gains.

## The Crazy Eddie Criminal Trial: Summer 1993

In June 1993, almost six years after the last remaining members of the Antar family were removed from Crazy Eddie, the criminal trial commenced in Newark, New Jersey. The court room was packed with reporters and supporters of Eddie Antar, Mitchell Antar, and Allen Antar. It was a family reunion of sorts, since Eddie and his previously feuding brothers were forced to join forces and in a bold effort to proclaim innocence.

The atmosphere was tense as defense lawyers desperately tried to discredit my testimony and the testimony of other cooperating witnesses. At times, the court room burst into laughter as defense lawyers and I exchanged sarcasms.

Eddie, Mitchell, and Allen tried to lay the entire blame for the Crazy Eddie fraud on me, despite them and other immediate family members pocketing over \$90 million of ill-gotten proceeds from selling Crazy Eddie stock at inflated values to defrauded investors and millions of dollars uncovered in secret foreign bank accounts.

For about a month, US Marshals guarded my safety. They even escorted me into the court house rest rooms. It was a "pisser." The US Marshals called it "babysitting the witness," just in case....

The trial is best described through the press accounts below:

*June 26, 1993: The Associated Press - Antar Doctored Books, Jury Told Cousin Tells of Profit Skimming (excerpts below):*

Crazy Eddie founder Eddie Antar and his brothers slowly stopped skimming profits and doctored inventory values to dupe investors into buying the discount electronics chain's stocks, their cousin and former comptroller told a federal jury Friday.

The testimony of Sam E. Antar, which is to continue next week, has bolstered the government's contention that Eddie Antar, along with his brothers Mitchell and Allen, bilked stockholders of \$80 million before the chain collapsed in the late 1980s.

Sam E. Antar, 36, also spoke of how he grew up in Brooklyn a few blocks from the Antar brothers. The defendants' father, Sam M. Antar, was the patriarch of the extended clan, Sam E. Antar said.

"In a lot of ways, they were closer to me than my own family," Sam E. Antar said.

Sam E. Antar began working for his cousin as a 14-year-old stock boy at his electronics store in Brooklyn called Sights and Sound. It later became Crazy Eddie; Eddie Antar and his father built a 43-store chain in the New York metropolitan area.



Sales reached \$350 million, driven by loud commercials. Unopposed dissident stockholders took over Crazy Eddie Inc. in November 1987, and discovered evidence of fraud. Two years later, Crazy Eddie Inc. filed for Chapter 11 bankruptcy.

Sam E. Antar learned quickly how his uncle and cousins operated their then-private company. He testified that all workers were paid in cash - "off the books" - and each night they divided tens of thousands of dollars taken from the cash registers.

The "skim" reached a peak of \$3 million in 1979 and was reduced until by 1983, the only cash being taken was for "off-the-books payroll" that augmented the recently instituted concept of paychecks, Sam E. Antar testified. The reason: The Antars were getting ready to sell stock.

"To go public, you have to show profits. And because of the skim, it wasn't showing any profits," Sam E. Antar said. But the financial information shown to stock analysts and potential investors was flawed, he noted.

"It showed the company was growing a lot faster than it was in terms of profits," Sam E. Antar said.

Crazy Eddie stock was issued in September 1984. In early 1986, Sam E. Antar said Sam M. Antar and his sons told him how they had inflated the inventory by \$2 million the year before. To meet Wall Street expectations, even more numbers had to be fabricated, Sam E. Antar said.

This was done "to deliberately manipulate financial information" so that Sam M. Antar and Eddie Antar could "sell stock at the highest price," Sam E. Antar said.

*June 29, 1993: The Bergen Record - Cousin: Antar had a 'Scorched Earth Policy' on Documents (excerpts below):*

The government's star witness in the Crazy Eddie stock fraud trial told a federal jury Monday how the weight of inflated sales figures and inventory eventually caused the schemes devised by himself and his cousins to collapse upon itself.

Former chief financial officer Sam E. Antar also related how Eddie Antar, founder of the discount electronics chain, had him lie to federal investigators as the company foundered in the late 1980s.

Eddie Antar, who is on trial with his brothers Mitchell and Allen, also instructed his younger cousin to destroy all incriminating documents in a "scorched earth" policy when it became apparent the Antar family would lose control of Crazy Eddie to dissident stockholders in late 1987, Sam E. Antar said.

His second day in the witness box also brought emotional testimony of how he finally decided in 1989 to plead guilty and cooperate in the civil and criminal proceedings against his cousins, who he grew up with in Brooklyn.

"I just turned 30 years old and felt the weight of the world on my shoulders," Sam E. Antar said. "I decided I had a wife and children and they were more important than all this garbage I'd been doing for 16 years."

Sam E. Antar faces 10 years in prison for admitting to obstructing justice and conspiring to commit mail and stock fraud. He has settled a \$160,000 fine with the U.S. Securities and Exchange Commission for \$20,000. His income has shrunk from \$200,000 a year to \$15,000 and he testified he is deeply in debt.

Sam E. Antar started as a 14-year-old stock boy at an electronics store in Brooklyn in 1971 that later became the first of 43 Crazy Eddie stores covering the New York metropolitan area.

Sales reached \$350 million, driven by loud commercials in which a pitchman touted "INSAAAAAANE" prices. Nearly all members of the extended Antar clan worked for the company, dominated by Eddie Antar and his father, Sam M. Antar, according to witnesses in the trial, now in its third week.

But the familial ties began to unravel toward the end of 1986 as more and more deceptions were used to present bogus profit figures to Wall Street, Sam E. Antar said. At the same time, Eddie Antar withdrew from hands-on management, communicating by phone to Sam E. Antar at the new headquarters in Edison.

Complicating matters were the splits that deepened after family members learned of Eddie Antar's infidelity, setting his brothers and father against him, Sam E. Antar said.

Eddie Antar fired his former mother-in-law, accusing her of taking a bonus she wasn't due.

"It was getting harder to get them to work together," he said. "I became a Henry Kissinger, going from one faction to another, making sure things got done."

The thing that Eddie Antar wanted done, above all, was to keep profits pumped up, Sam E. Antar said. Since 1985, that was done through a growing web of deceit: inventory figures bloated through borrowed goods and doctored figures; invoices for goods dated a month after the shipment was received; "debit memos" fabricated to show that manufacturers owed Crazy Eddie tens of millions of dollars for rebates and promotions; and cash infused that the family had skimmed before taking the company public in 1984.

An added element that made Sam E. Antar feel he was in a "pressure cooker" was a \$20 million stock sale by Eddie Antar. Sam E. Antar said he feared stockholder and SEC litigation if profits fell following an insider stock sale.

Eventually "the gap" between the company's actual performance and what it told the public reached \$45 million, according to records Sam E. Antar made in March 1987, following the end of fiscal year 1987: Crazy Eddie reported a profit of \$20.7 million; it actually had a loss of about \$25 million.

Several groups of investors began making inquiries about taking over Crazy Eddie. Eddie Antar directed his cousin to deal with them, while they explored the possibility of taking the company private. Those plans were abandoned amid the realization that worsening sales wouldn't merit financing.

Instead, Eddie Antar instructed his cousin to destroy documents, lie to SEC investigators, and have everybody else do the same.

"The scorched earth policy was to make the company as unmanageable as possible for the new management," Sam E. Antar said. He and others on the Board of directors approved lucrative "golden parachute" employment contracts for themselves.

*June 30, 1993: The Associated Press - Money Was Antar Family's 'Glue' Thrived Even After Blowup, Cousin Testifies, describes how I explained in Sam M and Eddie Antar's family that money ruled (excerpts below):*

The founder of Crazy Eddie still did business with his relatives after they exposed his marital infidelity in the "New Year's Eve" massacre, his cousin told a federal jury Tuesday in the stock fraud case.

The cousin, Sam E. Antar - the government's key witness - spent his third day in the witness box. It was the first session under cross-examination and produced several sharp exchanges.

No direct challenges to his testimony were scored, but the defense questioning is likely to continue for days.

In his first two days in court, Sam E. Antar has laid out much of the government's case against three brothers: Crazy Eddie founder Eddie Antar, and Mitchell and Allen Antar.

They are accused of pocketing \$80 million by selling inflated stock in their discount electronics chain. Sam E. Antar, who was the company's chief financial officer, has described a web of deceit that included pumping up inventory numbers, deferring accounts payable, and falsely billing vendors.

It had the effect of making the company look as if it was growing faster, with bigger profits, than it really was.

Sam E. Antar acknowledged Tuesday that the booming company did not have formal budgets or monetary controls: "The financial plan was to make more money every year and commit more fraud," he said.

The chain started in Brooklyn in 1971 and grew to 43 Crazy Eddie stores covering the New York metropolitan area. Sales reached \$350 million, driven by loud commercials in which a pitchman touted "insane" prices.

It collapsed in the late 1980s when the extended Antar clan could no longer support the weight of the fraud amid government inquiries, Sam E. Antar has said.

On Tuesday, he described what he knew of the 1983 New Year's Eve massacre events. Eddie Antar was getting into a limousine in Manhattan with his girlfriend, whom he since has married, Deborah Ehrlich. He was confronted by his wife, Deborah Rosen Antar, his sister, Ellen Kuszer, and a sister-in-law, "and a fight ensued," Sam E. Antar said.

Eddie Antar believed his father, Sam M. Antar, told the women where to find him, Sam E. Antar testified. The father, who founded the chain with Eddie, had already been at odds with his eldest son over his life style, Sam E. Antar said.

Mitchell and Allen Antar blamed Eddie Antar for a heart attack suffered by their father several months later, he said.

In court Tuesday, the father and Deborah Ehrlich Antar sat next to each other, as they have since the trial started June 15. Eddie Antar, 45, remained impassive as one of his lawyers had his arm around his back.

The father also remains close to the first wife, who still lives across the street from him in Brooklyn, Sam E. Antar said.

The rift apparently did not prevent the father and brothers from working together.

"Money was the glue that held these people together. When it came to money, they knew how to cooperate," Sam E. Antar said.

Eddie Antar's defense lawyer, Jack Arseneault, opened his questioning with a stern question: "You're an admitted liar, aren't you?"

Sam E. Antar, 36, agreed, and reiterated he is testifying under a bargain after pleading guilty to obstructing justice and conspiracy to commit stock and mail fraud. He faces up to 10 years in prison.

Throughout the day the pair sparred about whether Arseneault was speaking loudly enough and whether the lawyer was interrupting Sam E. Antar's responses.

After finishing a response, Sam E. Antar would say, "Go ahead." Arseneault would sarcastically reply, "Oh, thank you."

At one point the lawyer was discussing a promotion Sam E. Antar got, and asked, "You stepped in a bigger size set of shoes and kept walking?"

"I've always worn the same size shoes," Sam E. Antar said. The defense is contending that Eddie Antar didn't participate in company activities toward the end, unsettled by drink and the reopening of his divorce.

But when Arseneault asked if Sam E. Antar was aware his cousin's first wife had hired prominent divorce lawyer Raoul Lionel Felder, the witness responded, "Eddie always thought he was a moron."

*July 1, 1993: The Associated Press - Antars' Lawyers Attack Credibility of Key Witness but are Unable to Shake Cousin's Testimony" by Jeffrey Gold entitled (excerpts below):*

Lawyers for the founder of Crazy Eddie and his brothers on Wednesday challenged the credibility of the government's key witness in the stock fraud case. However, they were unable to topple the basic assertions of the witness, Sam E. Antar, a cousin of the defendants who also was an executive in the failed discount electronics chain.

During his four days in the witness box, Sam E. Antar has laid out much of the government's case against Crazy Eddie founder Eddie Antar and his brothers, Mitchell and Allen.

They are accused of bilking stockholders in the chain of \$80 million by inflating the value of Crazy Eddie stock through a series of schemes, including exaggerating inventory and deferring invoices.

.... during two days of cross-examination, they have sparred with Sam E. Antar, who succeeded his father in the mid-1980s as chief financial officer of the booming company.

The witness has complained that the lawyers wouldn't let him finish his answers. The witness has often finished his responses by telling the lawyers, "Go ahead."

"Don't give me instructions," shot back Jack Ford, lawyer for Mitchell Antar. "Judge Politan gives me instructions." Sam E. Antar continued the practice anyway.

When Gerald Krovin, lawyer for Allen Antar, suggested that Sam E. Antar was being evasive, the witness replied that the question wasn't specific: "Ask a proper question and you'll get the answer you want."

Sam E. Antar reiterated how he has already made a deal with the U.S. attorney, pleading guilty to obstruction of justice and conspiracy to commit stock and mail fraud. He could be sentenced to 10 years in prison, as opposed to hundreds if he had been convicted on all charges.

He also has settled suits with the U.S. Securities and Exchange Commission, and Howard Sirota, lawyer for 10,000 Crazy Eddie stockholders.

Ford asked Sam E. Antar whether he hopes the Antar brothers are convicted so he might get a lighter sentence.

"I wouldn't care either way," Sam E. Antar said. "Right now, it's the truth that's important."

Ford pressed the issue. He noted that Sam E. Antar has testified to about 100 meetings and more than 1,600 phone calls with government lawyers and other investigators opposing the Antar brothers.

Ford reported that Sam E. Antar has cheerfully greeted Sirota and Richard Simpson, lawyer for the SEC, outside the courtroom. Aren't you on their team? Ford said. "I'm not part of any team against anyone," Sam E. Antar replied. "This is not a game, sir. This is real life. "The witness also denied his motive for testifying was revenge because his attempt to gain control of Crazy Eddie with an outside investor failed in late 1987.

*July 4, 1993: The Philadelphia Inquirer - Sex, Stock, Fraud Star in Brothers' Trial 'Dallas' - Crazy Eddie Style - Captivates a Courtroom Crowd in Newark N.J. (excerpts below):*

Cousin Sam E. Antar was on the witness stand, talking about the greed and treachery he claims were behind the multimillion-dollar fraud that turned the Crazy Eddie discount electronics chain into a cash cow for the Antar family.

Fifty feet away, his uncle - also named Sam - sat in the second row of the crowded courtroom, listening stone-faced to the allegations.

Sam M. Antar, the family patriarch, his wavy white hair coifed against a deep tan, clearly was not pleased with what his nephew was telling the jury.

Next to Sam M. was Deborah Ehrlich Antar - the second Mrs. Eddie Antar, repeatedly referred to during the trial as "Debbie Two."

Occasionally rolling her eyes and murmuring in disbelief, she, too, seemed less than impressed with some of cousin Sam's testimony.

Her husband sat at the defense table....He whispered in his lawyer's ear and scribbled notes on a yellow legal pad as his cousin, former business associate and onetime friend laid the blame for the massive fraud at his feet.

Skims and scams. Lies and deceit. Money stashed in suitcases and hidden in ceilings. Secret foreign bank accounts. Phony passports and fake identities. Family feuds and marital infidelities. They are all a part of the story that has been spilling out through the mouths of a half-dozen government witnesses.

Three weeks into the trial that often attracts capacity crowds to the fifth- floor courtroom in U.S. District Court, this much is clear: The Ewings of Dallas had nothing on the Antars of Brooklyn.

"You couldn't make this stuff up," one observer said during a break in the testimony last week.

Mitchell and Allen don't talk to Eddie, even though they are all in this together and could end up doing serious jail time. Sam M. Antar, the father of the three defendants, has been estranged from Eddie for several years - although his position next to Eddie's second wife in the courtroom has some wags speculating about reconciliation.

But all of this is subject to change, say several sources who have followed the saga of the close-knit clan over the years.

"Uncle Eddy" Antar - Sam M.'s brother and Sam E.'s father - has testified for the government under a grant of immunity. He detailed one insider scheme in which he said hundreds of thousands of dollars in cash was taken "off the top" by family members.

Another cousin and employee, Eddie Gindi, was indicted with the Antar brothers but now is a government witness. Gindi, in poor health, has been living in Florida. His testimony was videotaped, and prosecutors began playing the tape for jurors on Friday.

Then there is Deborah Rosen Antar, the first Mrs. Eddie Antar - "Debbie One."

While not necessarily the most important government witness - Sam E. Antar clearly provided the most-detailed account of the fraud - Debbie One brings the sizzle.

If and when she takes the stand, the courtroom is expected to be packed.

She has already told much of her story to the Securities and Exchange Commission and in depositions taken in a messy divorce dispute. She has described the lavish lifestyle her former husband provided in the mid-1980s, before and shortly after taking the company public. She has talked of bundles of cash her husband used to bring home from work, of money stuffed in attache cases and hidden under the bed, of funds secretly taken out of the country and stashed in bank accounts in Israel. And she has described her husband's infidelity.

According to earlier trial testimony, it was on New Year's Eve 1983 that Deborah Rosen Antar and several other family members found her husband with another woman. At the time, court records indicate, Sam M. and most other members of the family sided with Debbie One in what became a protracted divorce battle. Eventually, Eddie Antar married that other woman, Debbie Two.

The ebb and flow of events over the last nine years - government investigations, civil suits, grand-jury indictments - have resulted in ever - shifting familial alliances, a real-life soap opera.

There were the two years that Eddie Antar spent on the run, hopscotching across three continents with phony passports, fake identities and, the government alleges, bank accounts loaded with millions of dollars.

Last week, Sam E. Antar provided the most-detailed account of the fraud, as well as a personal view of what he called the "family friction."

Most observers described Sam E.'s testimony as devastating.

Neither the defense attorneys nor prosecutors have been permitted to comment because of a gag order imposed by Judge Nicholas Politan. This came after Jack Arseneault, Eddie Antar's defense attorney, told two reporters before the trial that the case would be a tale of "jealousy, infidelity and greed."

Meanwhile, Debbie Two sits with Sam M., while Debbie One waits in the wings to testify for Uncle Sam.

*July 6, 1993: Newsday - A Family's Deceit and Drama Laid Bare by Edward R. Silverman (excerpts below):*

Nastiness set in when their cousin, Sam E. Antar, 36, took the stand and revealed the intricate and intimate details of how the Antars schemed, cajoled, lied and warred with one another while making millions that were counted at kitchen tables.

His recollection of feuds and frauds was dizzying. Eddie's father ostracized Eddie for having an affair. Eddie was angry at his father and brothers for siding with his first wife. The brothers were mad for not receiving more stock and blamed Eddie for their father's subsequent heart attack.

"It's like the Addams family went public and ended up in court," said one spectator at the trial.

Money was the glue that held these people together," said Sam Antar, a short, intense man who frequently interrupted his testimony to visit the bathroom and, during breaks, munched on ka'ak, a Middle Eastern cookie. Despite bickering, "when it came to money, they knew how to cooperate."

He went on to relate meetings, phone calls and family trivia. To laughter, he told how Eddie thought that Raoul Felder, his first wife's divorce lawyer, is a "moron," and how Eddie once warned him not to tell lawyers the truth, "because they'll just plead for you and not fight hard enough."

Defense attorneys attacked his credibility by charging that he cut a deal, because he faces 10 years in jail for his role in the fraud. And the fraud, they said, was all his doing.

But they were often frustrated. Prompting indignant grunts from relatives, Sam Antar insisted Eddie orchestrated everything. Twice he chastised his cousin for fleeing the country in 1990.



"He skipped town. He had to run away, with his phony passports. I stayed here and faced these responsibilities," he said angrily. Moments later, sounding contrite, he said, "I don't care what happens to Eddie Antar."

*July 15, 1993: Newark Star Ledger - Both sides point finger of culpability as Antar summations conclude by Robert Rudolf*

U.S. authorities and defense attorneys traded charges yesterday over who was responsible for the massive fraud that brought about the collapse of the "Crazy Eddie" retail electronics empire - company founder Eddie Antar or the government's own key witness against him. As federal prosecutors accused Antar and his two brothers, Mitchell and Allen Antar, of orchestrating the plot that led to one of the most sensational stock scandals in modern history, defense attorneys charged that the Antar brothers were being framed by the government's main informant, Sam E. Antar, Eddie Antar's cousin and lifelong friend. "Sam E. wanted to be the next Eddie Antar ... " said defense attorney Jack Arseneault.

The dual charges were leveled during summations in the federal racketeering trial of Eddie Antar and his brothers, being conducted before U.S. District Judge Nicholas H. Politan in Newark. The case is scheduled to go to the jury today.

[Snip]

Assistant U.S. Attorney Paul Weissman, however, painted Eddie Antar as a criminal mastermind with a virtual "mania for secrecy" who looted his own company of tens of millions of dollars and bilked investors into purchasing shares of the firm through bogus financial reports. Weissman charged that Antar then fled the country with the aid of a gallery of phony passports and left investors holding the bag when the company collapsed in bankruptcy. "This case is about a plan by members of the Antar family ... to cheat, to defraud members of the public ... "

[Snip]

Weissman told jurors that Eddie Antar played with bank accounts "the way Heifetz plays the violin." Weissman said Eddie Antar amassed a collection of six different passports, including Brazilian and Israeli documents, as part of a plan to "run and hide where he can't be touched by the law." The prosecutor said government investigators found money hidden in 20 separate accounts scattered around the world, most held in the names of Liberian or Gibraltar corporations.

*July 16, 1993: Newark Star Ledger - Antar Sheds Tears and Prosecutor Pounds Podium as Jury Gets Case by Robert Rudolf (excerpts below):*

Chertoff told jurors, "They say that blood is thicker than water. In this family money is thicker than blood."



## Results of Criminal Prosecution, Securities and Exchange Commission Litigation, and Other Litigation

### Criminal case

On July 20, 1993, the criminal trial resulted in the conviction of Eddie Antar and his brother Mitchell Antar. His other brother Allen Antar was acquitted of all charges. On April 12, 1995, Eddie's and Mitchell's convictions were overturned on appeal. However, both Eddie and Mitchell later pleaded guilty to criminal charges, rather than face a re-trial. Eddie Antar served over 6 years in prison and Mitchell Antar served approximately 2 years. The government and various civil litigants recovered over \$75 million from Eddie and \$2 million from Mitchell. Other co-conspirators pleaded guilty to various crimes, cooperated with the government investigations of Crazy Eddie, and testified at trial.

### SEC civil action

On July 15, 1998, Sam M. Antar, Allen Antar, and Benjamin Kuszer were found guilty of securities fraud in a civil action prosecuted by the Securities and Exchange Commission. The Court found that the defendants artificially inflated the prices of their Crazy Eddie stock holdings by engaging in an extensive, multifaceted fraud beginning in the 1970s and continuing through 1987. (SEC vs. Sam M. Antar et. al 93-3988 July 16, 1998)

Judge Ackerman wrote in his Opinion:

There is perhaps no more insidious drain on the overall welfare of society than greed unchecked. The saga of the Antar family and their operation of a major retail consumer electronics business is but a manifestation of that tenet. In this and related cases, it has become evident that various members of the Antar family engaged in a pattern of fraud and deceit in their attempt to enrich themselves by selling securities, the price of which had been artificially inflated through a multitude of schemes. This appears to be the last chapter in a story of a family and its deception of the public....

The Court explicitly rejected the defendants' trial testimony that they were unaware of the frauds that were committed at the company, finding that all three defendants lacked credibility.

Judge Ackerman noted specifically with respect to Sam M. Antar, who testified for six days at trial:

Over that time, this court obtained a rather clear sense of him as hardworking, ambitious, and highly intelligent. I also found him to be a skillful and inveterate liar.

Other family members, including Eddie Antar's current and former wives, and non-family members settled litigation issues with the SEC and other civil litigants rather than risk trials. Various civil judgments against members of the Antar family exceed \$1 billion.

To date the government and various civil litigants have collected approximately \$100 million various members of the Antar family. Other parties, such as Crazy Eddie's auditors, paid about \$50 million to settle lawsuits rather than risk going to trial. Over \$150 million in litigation recoveries have been collected to date. It is estimated that defrauded shareholders recovered over \$0.35 per dollar lost on their Crazy Eddie stock.

## **Government and civil litigants are still seeking to recover ill-gotten gains**

Despite all of the above, according to testimony by Stephen M. Cutler, Director, Division of Enforcement, U.S. Securities and Exchange Commission, before the House Subcommittee on Capital Markets, Insurance, Government Sponsored Enterprises, Committee on Financial Services on February 26, 2003:

....the staff conducted a worldwide search for, and extensive litigation over, Eddie Antar's assets. Even though the Commission and Crazy Eddie's trustee brought actions in six countries...., millions of dollars remain unaccounted for.

The government is still vigilant today in its efforts to collect money on behalf of defrauded victims.

On June 22, 2004 Justin Feldman, former attorney for Eddie Antar, in an interview at the SEC Historical Society commented on SEC attorney Richard Simpson:

Rick Simpson. Tenacity, I'm telling you! When he wanted every dollar bank we had to fight with him to get ten cents on the dollar on our fees.

The SEC and other civil litigants actually recovered more money in the aggregate from the Antar family than profits they made by selling their Crazy Eddie stock! However, all ill-gotten gains have not been paid back. Millions of dollars were skimmed. Income taxes were never paid on undeclared cash income skimmed from the company. Sales taxes were stolen. Insurance companies were defrauded with false claims. The list goes on and on.

## Summary of my Sentencing

I pleaded guilty to three felonies: Conspiracy to Commit Securities Fraud, Conspiracy to Commit Mail Fraud, and Obstruction of Justice. My plea agreement included a waiver from the federal sentencing guidelines. Therefore, Judge Nicholas H. Politan, had leeway to decide either on an upward or lower departure from the range of incarceration, as suggested under the federal sentencing guidelines. The range of imprisonment suggested under the guidelines based on my sentencing report was 41 to 51 months.

I was sentenced to six months of house arrest including costs of monitoring, 1,200 hours of community service, three years of probation, and \$10,100 fines and fees. My criminal sentence did not limit my civil liability to other government entities and civil litigants.

In my settlement with the Securities and Exchange Commission, I agreed to pay \$80,000 of disgorgement for insider trading. While I had lost approximately \$8,000 from selling my Crazy Eddie stock, it was determined that I cut my losses by trading on insider information. I paid only \$20,000 of the \$80,000 disgorgement based on inability to pay at the time of settlement. In addition, I agreed to a lifetime prohibition from employment as an officer or director of a public company. Further, I agreed to a lifetime prohibition from violating securities laws.

I settled the class actions lawsuits without incurring any monetary liability.

## About my cooperation with investigators and sentencing

After new management took over Crazy Eddie in November 1987, I originally stonewalled and obstructed the government's investigation of frauds by the company. I lied to my own attorney and government investigators. I helped Eddie Antar get other co-conspirators to lie to government investigators.

In early 1989, I learned that Eddie's father and brothers set us up to take the fall for everyone's crimes. At that point, Eddie distanced himself from me and prepared to leave the country to escape impending prosecution.

In March 1989, I fired my attorneys and hired Anthony Mautone to represent me in the criminal investigation and Jonathan D. Warner to represent me in the SEC and class action investigations. Anthony Mautone contacted the US Attorney's office in Newark in an effort to negotiate a plea bargain agreement. However, the prosecutors were very distrustful of me and would not negotiate an acceptable plea bargain agreement.

In February 1990, Eddie Antar skipped town altogether rather than comply with a Court order. In a bold move, my attorney Anthony Mautone advised me to assist the government investigators and civil litigants without the benefit of any plea bargain agreement.

I soon began having frequent face to face meetings with the FBI, SEC, and class action lawyers detailing the various crimes committed by the Antar clan, without the presence of my attorneys. I did not have the benefit of any legal agreement protecting me or limiting my criminal and overall civil liability.

Everything I said to the government investigators and civil litigants could be used against me. I had several hundred meetings and thousands of telephone conversations with the government investigators and class action lawyers. In addition, I testified in over 50 civil depositions and disclosed my crimes without the benefit of any agreement limiting my criminal liability and overall civil liability.

In August 1991, I agreed to plead guilty to two felonies. However, in October 1992, I agreed to plead guilty to an additional felony to help the US Attorney extradite Eddie Antar from Israel.

The only letters sent to Judge Politan came from the US Attorney (10b -5 Letter), the Securities and Exchange Commission, the Chairman of the Shareholder's Class Action Litigation, attorneys for the Oppenheimer-Palmieri Group (who took over Crazy Eddie in a hostile takeover and lost millions of dollars), the attorney for Elias Zinn and Entertainment Marketing (who were partners with the Oppenheimer - Palmieri Group and also lost millions of dollars), the attorneys representing the Crazy Eddie Bankruptcy Trustee, and a letter from the Trustee appointed by the Federal Court in Newark to find Antar family hidden assets.

Altogether only seven letters were sent to Judge Politan (mostly from the attorneys representing investors who lost millions of dollars). They all detailed my outstanding cooperation in the Crazy Eddie investigation after I started to assist the government and civil litigants in March 1989. There were no letters sent on my behalf from any family members, friends, and my community. I did not seek any such letters from them since they were irrelevant.

The federal sentencing guidelines recommended a jail sentence of 41 to 51 months for my crimes. However, Judge Politan was permitted an upward or downward departure from the federal sentencing guidelines, based on my plea agreement.

My reason for cooperating with the government and civil litigants was entirely selfish. After almost nineteen years of doing Eddie Antar and his family's bidding, I decided to think purely in terms of my own self-interest, which meant avoiding having to spend up to fifteen years in prison. My fear of serving a long prison term was the primary motivation behind my cooperation with government investigators and civil litigants. No sense of morality was involved in my decision. Any sense of morality that followed later, resulted initially from the rude awaking caused by the fear of a very long prison term. Had I never gotten caught, I would not have cooperated with the government and civil litigants and I would probably still be a criminal today.

At sentencing, the US Attorney noted my exceptional cooperation, but still recommended jail time for me. I believe that the recommendation for incarceration by the US Attorney was justified. Judge

Politan's sentence of six months of house arrest was both a surprise to me and extremely lenient considering the magnitude of my crimes.

My cooperation with the government and others deserves no praise from them since I was only doing what was required of a felon who got caught and turned himself in - I told the truth. My sins are unforgivable.

I have not paid the full cost of my crimes to my victims and society. For example, I did not pay any income taxes on the monies that I received "off the books." My fines were minimal (\$10,000). I did not pay any damages in the class action litigation and other civil litigation (except for the \$20,000 I paid to the Securities and Exchange Commission in disgorgement of proceeds from my sale of Crazy Eddie stock). I never went to prison.

The American Institute of Certified Public Accountants (AICPA) and the New York State Society of Certified Public Accountants terminated my membership after I pleaded guilty to certain crimes. However, it took New York State almost 15 years to begin a disciplinary action against me for professional misconduct to revoke my CPA license.

I am grateful to the US Attorney, the SEC, the civil plaintiff's attorneys and their clients, and others for recognizing my exceptional cooperation. In addition, I am thankful and indebted to the Court and for taking into account my cooperation and not sending me to prison. I am thankful for their undeserved leniency.