**Summary of Fraud**

**Background:**

Crazy Eddie became a major retail consumer electronics company in the tri-state area in the late 1970s and 1980s. Three partners, Sam M. Antar, Eddie Antar and Aaron Gindi as “Sights and Sounds”, founded it in 1969 in Brooklyn, NY. Each of the partners owned approximately one-third interest in the business. When the business was incorporated as ERS Electronics, Inc., Eddie bought out Aaron to acquire two-thirds interest in the company. Sam M. formed a new corporation, “Ultralinear Sound Corporation”, later known as “Crazy Eddie” that succeeded the previous business. Crazy Eddie became “INSANELY” popular and built up customer loyalty by circumventing fair trade and offering customers reduced prices on popular electronic goods. At its height, Crazy Eddie was located in four states and maintained approximately 43 stores, which earned more than $300 million in sales.

**Description of the Fraud:**

The Antar family orchestrated this major fraud by engaging in a variety of deceptive practices and schemes in order to personally profit off of the “success” of Crazy Eddie. As described by Sam E. Antar, there were approximately three phases involved in the fraud. The first phase of the fraud occurred between 1969 and 1979, prior to the company’s plan of going public, the second phase of the fraud occurred between 1980 and 1984, in preparation for the initial public offering, and the third phase between 1984 and 1987, when the company became a publically traded company. The first phase of the fraud began as early as 1971, shortly after the creation of “Sights and Sounds”. The primary schemes that were involved during this time period included cash skimming, tax evasion (income, sales and payroll taxes), and reporting of phony or exaggerated insurance claims. Operating as a private company, Sam M. Antar and Eddie Antar began a cash-skimming scheme in order to circumvent reporting their earnings to the government to avoid paying taxes. A skimming scheme is a process by which cash proceeds of sales are not deposited or recorded on the company’s books and records, but instead, in this case was used for the company’s off-the-books payroll or personal use. In 1974, Sam M. Antar brought in his brother, Uncle Eddy Antar to maintain the company’s books for “Sights and Sounds” and later Crazy Eddie. His responsibility was to keep track of the cash skimmed to pay employees and enrich the members of the Antar family. Upon Sam M. and Eddie’s instructions, Uncle Eddy would deposit only as much money as was needed to cover outstanding checks, use a portion to pay out the payroll, and then the remaining cash would be placed in a file cabinet in Sam M.s home. Uncle Eddy testified that in 1974, he was skimming between $5,000 and $10,000 per week.

After accumulating a large sum of money from their cash-skimming scheme, they needed to cover their tracks and hide the money. On a trip to Israel in 1978, Sam M. went to a seminar sponsored by the Bank Leuimi and learned that the bank offered secret bank accounts where the money that was deposited into the account would not be reported to the Internal Revenue Service. Sam M. opened the secret account and members of the Antar family deposited the skimmed cash into the account on their trips back and forth to Israel. The Antar’s later used funds from this account to artificially inflate Crazy Eddie earnings in the third phase of the fraud.

Around the time period of 1980, the second phase of the fraud began. By the end of 1983, Sam M. and Eddie Antar had taken substantial steps to launch an IPO of Crazy Eddie stock. They believed that they would receive greater profits from the sale of stock than their previous schemes. In order legitimize their business, the Antar family needed to change many of the schemes it had implemented prior to their intentions of becoming public. As a result of the cash-skimming scheme, Crazy Eddie’s reported income figures were significantly reduced compared to what they should have been. By reducing the cash skimming, it would artificially increase growth and give the appearance that the company was rapidly growing. This enticed investors to purchase shares of the company at inflated values. Additionally in order to go public, Crazy Eddie needed to pay all employees on the books and reduce its cash-skimming scheme. All the employees that had previously been paid “off the books” had to be paid on the books to help avoid a drop in the net payroll income. In order to make up for the loss of “off the books” compensation and pay higher payroll and income taxes, they grossed up the employees total compensation to aid in this effort. On September 13, 1984, Crazy Eddie had its initial public offering.

The third phase of the fraud began after the company went public. In 1986 and 1987, the Antar’s focus shifted and they needed to discover a way to inflate their income in order to continually sell their stock at inflated prices on the market. The primary schemes used in this phase include inventory fraud, subsequently under reporting accounts payable, channel switching, and inflating sales volumes and profits by laundering previously skimmed funds back into the business. In order to increase reported profits, management at Crazy Eddies developed and engaged in a plan to significantly inflate the inventories in the warehouse, stores, and returns department. To begin, employees at Crazy Eddie under the direction of the Antar’s were able to inflate both the audited and unaudited store inventory counts. In regards to the unaudited inventory, the count sheets were the altered by employees to falsify the merchandise quantities listed on them. The audited inventory posed more of a challenge for the Antar’s and they engaged in several deceptive practices with their auditors unaware of their intent. Since the auditors did not take their entire store inventory counts with them when they left the premises, only test counts, they became aware of what counts they could falsify. Employees of Crazy Eddie also volunteered to count and make copies for auditors while they were performing their test counts. When the auditors left, they were able to significantly inflate the inventories they knew the auditors were not focused on. In addition, they were able to overstate Crazy Eddie, Inc.’s inventory by breaking into and altering audit records. They gained access to all of the auditors work papers that were left behind in locked boxes at the businesses during the audits. They became aware of the audit manager’s key location in his unsecured desk, proceeded to break into the box and falsify the store inventories. The last inventory scheme that they used to inflate revenue was “sharing” inventory to boost other store’s audit counts. They would move inventory from one store location and move it to another when they became aware that the auditors would be performing an inventory count. They also double counted and took credit for returned merchandise while counting it as inventory. By double counting this inventory, it inflated the individual stores quantities and inflated overall revenue.

In addition to the inventory fraud, the Antar’s sought for other ways to inflate their store revenues. In order to meet analyst sales expectations in 1986, they wired funds from their secret offshore account they created in Israel. They transferred the funds from Bank Leumi in Israel to Panama where family members withdrew the funds in forms of drafts or non-negotiable instruments to avoid violating US disclosure laws involving the movement of funds into the country. They listed the smuggled money from the foreign banks as sales by depositing the funds back into Crazy Eddie retail locations and recorded fake sales. This in turn allowed them to record a higher amount of sales and revenue and resulted in an artificially inflated stock price.