

## Crazy Accounting at Crazy Eddie, Inc.<sup>1</sup>

Norbert Tschakert\*

*“Eddie was a godlike figure to me. We all looked up to him like a leader. He worked out with weights; he carried himself like a prince or something; he was just so charismatic” Sam E. Antar*

### Introduction

This case study describes a well-known fraud at a consumer electronics chain in the tri-state New York area in the 1980s. Crazy Eddie went public in 1984 and a long-lasting financial statement fraud was not discovered until 1987. Due to its notoriousness and multifacetedness, the study case is engaging and provides many learning opportunities for accounting students.

“His story is a classic study in financial statement fraud, going from under-reporting income almost immediately after starting his business with his father, to overstating income and manipulating the financial statements” (ACFE, 2013). The case is consistent with most class concepts:

- Auditors did not detect the fraud. Auditors are, in general, surprisingly unsuccessful in uncovering fraud.
- Crazy Eddie’s auditing firms were not independent by today’s standards, and they had large consulting agreements with Crazy Eddie.
- Recovery of all damages is rarely possible, and Crazy Eddie’s fraud was no exception.
- Subsequent legal proceedings are often tedious, time consuming, and expensive.
- The presence of multiple red flags needs to be investigated further.
- Analytical procedures can provide valuable insights for follow-up questions and audit planning.
- A lack of internal control and proper tone at the top should have significant implications for an audit.
- Forensic accountants should employ various forensic investigative techniques, but they need to adopt to the situation at hand. The Antars destroyed all evidence which reduced the number of available forensic techniques.<sup>2</sup>

Crazy Eddie’s 1988 annual report included devastating news for the shareholders of Crazy Eddie (Crazy Eddie, 1988):

*“In November 1987, new management commenced an extensive review of the company’s assets and operations. This review disclosed a shortfall in inventory on hand of approximately \$65 million from recorded book inventory and substantial understatement of accounts payable...New management believes that portions of the company’s financial statements for periods which include periods prior to November 6, 1987 are inaccurate and may not be relied upon.”*

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<sup>1</sup> A Microsoft Excel file that includes the financial statements for Crazy Eddie Inc. is available via e-mail by contacting the author: ntschakert@salemstate.edu.

<sup>2</sup> Many characteristics of the Crazy Eddie fraud can be found in other fraud cases. For example, destruction of evidence occurred during the Enron fraud and has also been alleged during the recent Volkswagen emission scandal (Ewing, 2016). Fictitious revenues were used at Sunbeam, ZZZZ Best, and Qwest. Phar-Mor and Rite Aid overstated inventory. Breaking into the auditor’s file cabinet occurred at MiniScribe.

In 1987, Texas businessman Elias Zinn and his business partner Victor Palmieri took control of Crazy Eddie. They believed that the difficulties Crazy Eddie faced were rooted in poor management, and therefore represented a quick turnaround opportunity. They reckoned that by exchanging management and making appropriate adjustments, it should be possible to reap a large reward. Zinn and Palmieri largely relied on the clean audit reports provided by a reputable auditing firm and missed the fact that Crazy Eddie's founders had orchestrated a massive accounting fraud for years. This case study investigates how the fraud was conducted, why it was not detected for years, and how it could have been detected earlier. Even though this fraud occurred many years ago, it still provides many learning opportunities relevant today. Together with the ZZZZ Best fraud, the Crazy Eddie fraud represents a landmark fraud of the 1980s that led to revised and more stringent auditing standards. Even though this fraud is old, it provides many examples of how financial statement fraud is committed and how auditors can be deceived (Wells, 2010).

### **Background**

Eddie Antar, his father Sam M. Antar, and Eddie's cousin Ronnie Gindi started with a single electronics retailer store in Brooklyn, NY in 1969, called 'Sights and Sounds', with each of owning a third of the company. In 1971, Eddie purchased his cousin's share in the business for \$25,000 and changed the name of the business to 'Crazy Eddie's Ultra Linear Sound Experience' and thereafter to 'Crazy Eddie', after a nickname he acquired during high school. Eddie and his father took their company public in 1984 and were able to grow Crazy Eddie to a chain of forty-three stores. They utilized a relentless advertising campaign to draw customers to their stores (Exhibit 1). At its peak in 1987, Crazy Eddie's market capitalization was about \$600 million (Clikeman, 2013).

However, not all was well at Crazy Eddie. From the beginning, Eddie Antar had great ambitions, and he used many schemes to defraud others. Examples include cash skimming, income tax and payroll tax evasion, overstatement of inventories and corresponding understatement of costs of goods sold, recording of fictitious revenues, money laundering, insider trading, accessing and altering auditor records, insurance fraud, timing differences, and improper disclosures. Even with restitution judgments of over \$700 million, the now infamous Crazy Eddie fraud was not one of the largest, but it was certainly one of the more famous and memorable ones due to its hard to beat outrageousness (Wells, 2007).

An important factor contributing to the downfall of Crazy Eddie were disagreements among the Antar family. Eddie's father Sam M. Antar wanted more recognition and influence over Crazy Eddie, resulting in conflicts with Eddie. Around the same time, Eddie started cheating on his wife with his mistress, a Crazy Eddie employee (conveniently, both were named Debbie). When Eddie's wife found out about his infidelity, it caused a rift in the Antar family as some family members supported Debbie I, and they retaliated against by Eddie. Eddie eventually married Debbie II, and in 1987, Debbie I sued Eddie to challenge the divorce proceedings and the amounts she received ("Debbie I" and "Debbie II" are used in Crazy Eddie court proceedings).

Crazy Eddie declared bankruptcy in 1988, and in 1990, Eddie was ordered to surrender all of his funds located outside of the United States. Rather than complying with this order, Eddie fled to Israel using a forged passport. The U.S. Department of Justice then issued an arrest warrant for Eddie (Exhibit 2).

### **Crazy Eddie's Fraud Schemes**

The following list provides a brief introduction to the various fraud schemes committed by Eddie Antar:

- *1. Phony Insurance Claims*

Crazy Eddie frequently incurred fire and flood losses. These losses were willfully created and the damaged inventory was vastly overstated.

- *Phony Warranty Claims*

Eddie submitted warranty claims to manufacturers for repairs Crazy Eddie did not perform. Thus, manufacturers paid for phony warranty claims, resulting in overstatement of revenue for Crazy Eddie.

- *Skimming*

Before Crazy Eddie was a stock-listed company, the Antars underreported Crazy Eddie's earnings to evade sales tax payments. Part of the cash sales were not entered into the company books, and the cash was secretly transferred to bank accounts at Bank Leumi in Israel via frequent trips of family members to Israel. Other uses for the skimmed money included payments of salary to family members and lifestyle improvements. Eddie knew that skimming would hurt growth prospects as investors would evaluate the company. The skimming was therefore phased out prior to the IPO, creating the appearance of an even faster growing company. The plot of the recent 'The Accountant' movie centers around the Crazy Eddie's scheme.]

- *Fictitious Revenues*

In a retail environment, analysts frequently compare individual store performance with prior period data as well as other stores of the chain. The higher the growth, the better. Since some of the stores did not perform as well as others, Eddie added fictitious revenues to the lower performing stores.

- *Money Laundering (The "Panama Pump")*

To create the appearance of Crazy Eddie as a successful and growing company, money previously deposited in Israel at Bank Leumi was wired to Bank Leumi's Panama branch into an account named "Aeronautics Traders Corporation". Aeronautics Traders Corporation then served as a "customer" to purchase items at various Crazy Eddie stores, resulting in fictitious revenues with a cash infusion and no associated costs.

- *Illicit Collaboration with Retail Customers*

Due to the large quantities ordered from suppliers and resulting discounts, Crazy Eddie also could sell to other retailers as well as to end consumers. Eddie sold merchandise to a retailer at cost and did not report these transactions in Crazy Eddie's books. The retailer was then instructed to provide payment with undated checks in \$10,000 to \$50,000 amounts, so that Eddie could use them to inflate sales at stores of his choosing. These new sales transactions did not have any supporting documentation that would specify inventory items or quantities sold.

- *Understating Accounts Payable*

Eddie post-dated purchase orders, so that liabilities attributable to the current period were postponed to the next period. When delivery of the merchandise occurred, all shipping documents and packing slips were intercepted and hidden from auditors.

- *Poor Disclosure (and again understating accounts payable)*

In 1987, Crazy Eddie changed its accounting method for purchase discounts and trade allowances. Prior to 1987, purchase discounts and trade allowances were recognized when received. Starting in 1987, purchase discounts and trade allowances were recognized when earned. This change added more subjectivity to the recognition of purchase discounts and trade allowances and was then misused to record numerous fabricated discounts and to aggressively understate accounts payable. While the new accounting policy was included in the financial statements, the fact that the policy had changed was not disclosed and no prior year comparison of its impact was provided.

- *Misleading Auditors*

The auditors of Crazy Eddie routinely left their documents overnight in a locked file cabinet at Crazy Eddie's offices. The Antars observed that the auditors would hide the key to the cabinet in a paper clip box on their work desk at Crazy Eddie. Every night after the auditors had left, Eddie and his

cousin Sam E. accessed the auditor's cabinet and altered audit records, specifically inventory counts to inflate inventory (Antar 2011).

By reviewing the auditor's records, Eddie was able to foresee the auditor's route as it relates to inventory inspection and counting. Eddie would then—overnight—ship inventory from stores that had already been counted to stores that have yet to be counted in order to inflate inventory.

- *Insider Trading*

Eddie and part of the Antar family had full knowledge of the true economic situation at Crazy Eddie, and they willfully misled the investing public to entrust in the published financial statements which contained materially misstated information. Utilizing this better knowledge, Eddie and other insiders close to him sold their stock before the truth about Crazy Eddie became publicly known information.

### **Case Instructions and Resources**

The previous description only serves as an introduction to the Crazy Eddie fraud and is far from complete. In your research about Crazy Eddie, you will therefore need to employ a host of additional resources. Examples for such resources are listed below:

- 1) Crazy Eddie Annual Reports:  
[www.whitecollarfraud.com/crazy-eddie/crazy-eddie-documents](http://www.whitecollarfraud.com/crazy-eddie/crazy-eddie-documents)
- 2) Opinion by Judge Ackerman:  
[www.scribd.com/doc/232836680/Securities-and-Exchange-Commission-v-Sam-M-Antar-Allen-Antar-and-Benjamin-Kuszer-Et-Al-Opinion-Filed](http://www.scribd.com/doc/232836680/Securities-and-Exchange-Commission-v-Sam-M-Antar-Allen-Antar-and-Benjamin-Kuszer-Et-Al-Opinion-Filed)
- 3) Sam E. Antar's recollection of the Crazy Eddie fraud:  
<http://business.pages.tcnj.edu/files/2013/02/2011-09-07-The-Crazy-Eddie-Fraud-by-Sam-E.-Antar.pdf>
- 4) Wikipedia summary of the Crazy Eddie fraud:  
[http://en.wikipedia.org/wiki/Crazy\\_Eddie](http://en.wikipedia.org/wiki/Crazy_Eddie)
- 5) ACFE Report to the Nations (Classification of fraud schemes):  
[www.acfe.com/rtn.aspx](http://www.acfe.com/rtn.aspx)

Multiple online videos are available and can be used to familiarize yourself with the case. The following online videos are available:

- 1) ACFE: Crazy Eddie:  
<http://youtu.be/5f6ZpC2bmbs>
- 2) Masterminds: Crazy Eddie:  
[www.financedocumentaries.com/2011/11/masterminds-crazy-eddie.html](http://www.financedocumentaries.com/2011/11/masterminds-crazy-eddie.html)
- 3) CNBC: Eddie Antar and Sam E. Antar meet again:  
[http://youtu.be/Y\\_7ntzgTvhs](http://youtu.be/Y_7ntzgTvhs)

Lastly, various accounting books (e.g, Crumbley et al., 2015; Kranacher et al., 2010; Ramamoorti et al., 2013) as well as academic and practitioner articles (e.g. Daigle et al., 2015; Dorminey et al., 2012; Knapp and Knapp 2012) reference the Crazy Eddie fraud.

**Possible References:**

- ACFE. 2013. How to detect and prevent Financial Statement Fraud. Austin, TX: ACFE.
- Antar, S. E. 2011. The Crazy Eddie Fraud: Confessions of a White-Collar Criminal. <<http://business.pages.tcnj.edu/files/2013/02/2011-09-07-The-Crazy-Eddie-Fraud-by-Sam-E.-Antar.pdf>> 11.06.15.
- Clikeman, P.M. 2013. Called To Account: Financial Frauds that Shaped the Accounting Profession. 2<sup>nd</sup> Edition. New York, NY: Routledge.
- Crazy Eddie. 1988. Crazy Eddie Annual Report 1988. <<http://whitecollarfraud.com/crazy-eddie/crazy-eddie-documents>> 09.21.15.
- Daigle, R. J.; Morris, J. T.; Quarles, R. 2015. Using Non-Academic Multimedia Resources to Enhance Student Learning of Fact-Based Fraud Cases. *Journal of Forensic and Investigative Accounting*, 7(1), 212–252.
- Dorminey, J.; Fleming, A.S.; Kranacher, M.J.; Riley, R. 2012. The Evolution of Fraud Theory. *Issues in Accounting Education*, 27(2), 555–579.
- Ewing, J. 2016. VW Whistle-Blower's Suit Accuses Carmaker of Deleting Data, The New York Times, March 14, 2016, <[http://www.nytimes.com/2016/03/15/business/energy-environment/vw-diesel-emissions-scandal-whistleblower.html?\\_r=0](http://www.nytimes.com/2016/03/15/business/energy-environment/vw-diesel-emissions-scandal-whistleblower.html?_r=0)> 06.09.16.
- Knapp, M.C.; Knapp, C.A. 2012. Cognitive Biases in Audit Engagements—Errors in Judgment and Strategies for Prevention. *The CPA Journal*, June 2012, 40–45.
- Kranacher, M. J.; Riley, R.; Wells, J.T. 2010. Forensic Accounting and Fraud Examination. Hoboken, NJ: John Wiley & Sons.
- Ramamoorti, S.; Morrison, D.E.; Koletar, J.W.; Pope, K.R. 2013. A.B.C.'s of Behavioral Forensics: Applying Psychology to Financial Fraud Prevention and Detection. Hoboken, NJ: John Wiley & Sons.
- Wells, J. T. 2007. Corporate Fraud Handbook: Prevention and Detection. 2<sup>nd</sup> Edition. Hoboken, NJ: John Wiley & Sons.
- Wells, J. T. 2010. So That's Why It's Called a Pyramid Scheme. *Journal of Accountancy*, October 2010, 91–93.

Exhibit 1: Crazy Eddie Advertising

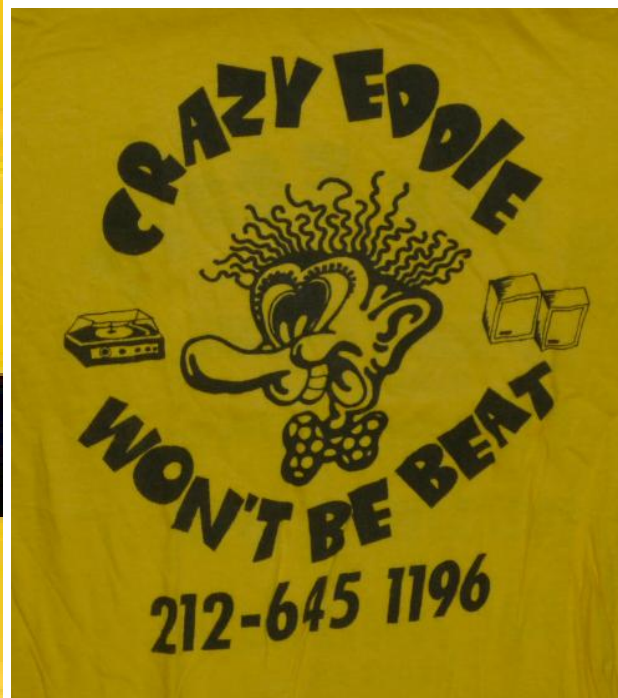


Exhibit 2: Eddie Antar wanted by U.S. Department of Justice



U.S. Department of Justice  
United States Marshals Service

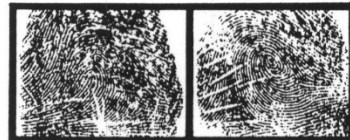
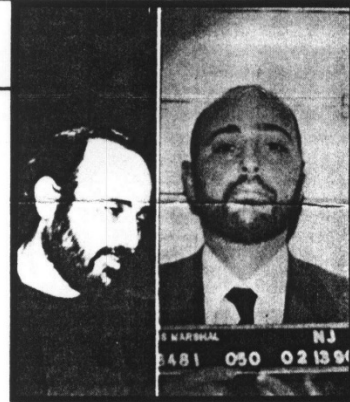
# WANTED BY U.S. MARSHALS

NOTICE TO ARRESTING AGENCY: Before arrest, validate warrant through National Crime Information Center (NCIC). United States Marshals Service NCIC entry number: (NIC/ W575089283 ).

**NAME:** ANTAR, Eddie  
**ALIAS:** STEWART, Alexander; ALEXANDER, Stewart; LEVY, Joseph;  
LEVY, Yosef; SHLOMO, Ezra Ben; "KELSO"; "CRAZY EDDIE"

**DESCRIPTION:**

Sex ..... MALE  
Race ..... WHITE  
Place of Birth ..... BROOKLYN, NEW YORK  
Date(s) of Birth ..... DECEMBER 18, 1947  
Height ..... 5'6"  
Weight ..... 165 LBS  
Eyes ..... BROWN  
Hair ..... BROWN  
Skintone ..... MEDIUM  
Scars, Marks, Tattoos ..... 10" VERTICAL SCAR ON ABDOMEN  
Social Security Number ..... 120-38-5665, 120-38-5565  
NCIC Fingerprint Classification . PO 04 03 15 11 17 05 09 15 12



LEFT THUMB PRINT RIGHT THUMB PRINT

**WANTED FOR:** CRIMINAL CONTEMPT OF COURT  
**Warrant Issued:** District of New Jersey  
**Warrant Number:** 9050-0228-0111-F  
**DATE WARRANT ISSUED:** February 27, 1990

**MISCELLANEOUS INFORMATION:** ANTAR is a wealthy man and frequent international traveller. ANTAR speaks fluent English, French and possibly Hebrew. He has been described as a heavy drinker. ANTAR may be using an Israeli passport.

If arrested or whereabouts known, notify the local United States Marshals Office, (Telephone: \_\_\_\_\_ ).  
If no answer, call United States Marshals Service Communications Center in Arlington, Virginia.  
Telephone (800) 336-0102: (24 hour telephone contact or (800) 423-0719 (TDD). NLETS access code is VAUSMOOOO.

PRIOR EDITIONS ARE OBSOLETE AND NOT TO BE USED.

Form USM-132  
(Rev. 4/90)

**Exhibit 3: Excel file available on e-learning—Vertical Analysis of Crazy Eddie’s Balance Sheet**

| Balance Sheet - Vertical Analysis                 |                    | <i>% of</i>                 | <i>Fraud</i>                          | <i>% of</i>                 |                  | <i>% of</i>                 |                  | <i>% of</i>                 | <i>Year of IPO</i> |
|---|--------------------|-----------------------------|---------------------------------------|-----------------------------|------------------|-----------------------------|------------------|-----------------------------|--------------------|
|   | Feb. 28<br>1988    | <i>total assets</i><br>1987 | <i>Discovered</i><br>March 1,<br>1987 | <i>total assets</i><br>1986 | March 2,<br>1986 | <i>total assets</i><br>1985 | March 3,<br>1985 | <i>total assets</i><br>1984 | May 31,<br>1984    |
| Cash  | \$ 5,100           |                             | \$ 9,347                              |                             | \$ 13,296        |                             | \$22,273         |                             | \$ 1,375           |
| Short-term investments                            | \$ 9,846           |                             | \$ 121,957                            |                             | \$ 26,840        |                             | \$ -             |                             | \$ -               |
| Receivables                                       | \$ 35,606          |                             | \$ 10,846                             |                             | \$ 2,246         |                             | \$ 2,740         |                             | \$ 2,604           |
| Merchandise Inventories                           | \$ 59,444          |                             | \$ 109,072                            |                             | \$ 59,864        |                             | \$26,543         |                             | \$ 23,343          |
| Prepaid expenses                                  | \$ 2,846           |                             | \$ 10,639                             |                             | \$ 2,363         |                             | \$ 645           |                             | \$ 514             |
| <b>Total current assets:</b>                      | <b>\$112,842</b>   |                             | <b>\$ 261,861</b>                     |                             | <b>\$104,609</b> |                             | <b>\$52,201</b>  |                             | <b>\$ 27,836</b>   |
| Restricted cash                                   | \$ -               |                             | \$ -                                  |                             | \$ 3,356         |                             | \$ 7,058         |                             | \$ -               |
| Due from affiliates                               | \$ -               |                             | \$ -                                  |                             | \$ -             |                             | \$ -             |                             | \$ 5,739           |
| PP&E  | \$ 32,949          |                             | \$ 26,401                             |                             | \$ 7,172         |                             | \$ 3,696         |                             | \$ 1,845           |
| Construction in process                           | \$ -               |                             | \$ -                                  |                             | \$ 6,253         |                             | \$ 1,154         |                             | \$ -               |
| Other assets                                      | \$ 3,008           |                             | \$ 6,596                              |                             | \$ 5,560         |                             | \$ 1,419         |                             | \$ 1,149           |
| <b>Total assets</b>                               | <b>\$148,799</b>   |                             | <b>\$ 294,858</b>                     |                             | <b>\$126,950</b> |                             | <b>\$65,528</b>  |                             | <b>\$ 36,569</b>   |
| Accounts payable                                  | \$ 42,752          |                             | \$ 50,022                             |                             | \$ 51,723        |                             | \$23,078         |                             | \$ 20,106          |
| Notes payable                                     |                    |                             | \$ -                                  |                             | \$ -             |                             | \$ -             |                             | \$ 2,900           |
| Short-term debt                                   | \$ 24,653          |                             | \$ 49,571                             |                             | \$ 2,254         |                             | \$ 423           |                             | \$ 124             |
| Unearned revenue                                  | \$ 3,861           |                             | \$ 3,641                              |                             | \$ 3,696         |                             | \$ 1,173         |                             | \$ 764             |
| Accrued expenses                                  | \$ 9,332           |                             | \$ 5,593                              |                             | \$ 17,126        |                             | \$ 8,733         |                             | \$ 6,078           |
| <b>Total current liabilities</b>                  | <b>\$ 80,598</b>   |                             | <b>\$ 108,827</b>                     |                             | <b>\$ 74,799</b> |                             | <b>\$33,407</b>  |                             | <b>\$ 29,972</b>   |
| Long-term debt                                    | \$ 632             |                             | \$ 8,459                              |                             | \$ 7,701         |                             | \$ 7,625         |                             | \$ 46              |
| Convertible subordinated debentures               | \$ 80,975          |                             | \$ 80,975                             |                             | \$ -             |                             | \$ -             |                             | \$ -               |
| Unearned revenue                                  | \$ 5,332           |                             | \$ 3,337                              |                             | \$ 1,829         |                             | \$ 635           |                             | \$ 327             |
| <b>Total Liabilities</b>                          | <b>\$167,537</b>   |                             | <b>\$ 201,598</b>                     |                             | <b>\$ 84,329</b> |                             | <b>\$41,667</b>  |                             | <b>\$ 30,345</b>   |
| Stockholder's equity                              |                    |                             |                                       |                             |                  |                             |                  |                             |                    |
| Preferred Stock                                   | \$ 18              |                             | \$ -                                  |                             | \$ -             |                             | \$ -             |                             | \$ -               |
| Common stock                                      | \$ 315             |                             | \$ 313                                |                             | \$ 280           |                             | \$ 134           |                             | \$ 50              |
| Additional paid-in capital                        | \$ 58,630          |                             | \$ 57,678                             |                             | \$ 17,668        |                             | \$12,298         |                             | \$ 574             |
| Retained earnings                                 | \$ (73,829)        |                             | \$ 35,269                             |                             | \$ 24,673        |                             | \$11,429         |                             | \$ 5,600           |
| Treasury Stock                                    | \$ (3,872)         |                             | \$ -                                  |                             | \$ -             |                             | \$ -             |                             | \$ -               |
| <b>Total stockholder's equity</b>                 | <b>\$ (18,738)</b> |                             | <b>\$ 93,260</b>                      |                             | <b>\$ 42,621</b> |                             | <b>\$23,861</b>  |                             | <b>\$ 6,224</b>    |
| <b>Total liabilities and stockholder's equity</b> | <b>\$148,799</b>   |                             | <b>\$ 294,858</b>                     |                             | <b>\$126,950</b> |                             | <b>\$65,528</b>  |                             | <b>\$ 36,569</b>   |



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**Exhibit 4: Excel file available on e-learning—Horizontal Analysis of Crazy Eddie’s Balance Sheet**

| Balance Sheet - Horizontal Analysis               |                    |                   | <i>Fraud<br/>Discovered</i> |                   |                  |                   |                  | <i>Year of IPO</i> |
|---|--------------------|-------------------|-----------------------------|-------------------|------------------|-------------------|------------------|--------------------|
|   | Feb. 28<br>1988    | Change<br>86 - 87 | March 1,<br>1987            | Change<br>85 - 86 | March 2,<br>1986 | Change<br>84 - 85 | March 3,<br>1985 | May 31,<br>1984    |
| Cash  | \$ 5,100           |                   | \$ 9,347                    |                   | \$ 13,296        |                   | \$22,273         | \$ 1,375           |
| Short-term investments                            | \$ 9,846           |                   | \$ 121,957                  |                   | \$ 26,840        |                   | \$ -             | \$ -               |
| Receivables                                       | \$ 35,606          |                   | \$ 10,846                   |                   | \$ 2,246         |                   | \$ 2,740         | \$ 2,604           |
| Merchandise Inventories                           | \$ 59,444          |                   | \$ 109,072                  |                   | \$ 59,864        |                   | \$26,543         | \$ 23,343          |
| Prepaid expenses                                  | \$ 2,846           |                   | \$ 10,639                   |                   | \$ 2,363         |                   | \$ 645           | \$ 514             |
| <b>Total current assets:</b>                      | <b>\$112,842</b>   |                   | <b>\$ 261,861</b>           |                   | <b>\$104,609</b> |                   | <b>\$52,201</b>  | <b>\$ 27,836</b>   |
| Restricted cash                                   | \$ -               |                   | \$ -                        |                   | \$ 3,356         |                   | \$ 7,058         | \$ -               |
| Due from affiliates                               | \$ -               |                   | \$ -                        |                   | \$ -             |                   | \$ -             | \$ 5,739           |
| PP&E  | \$ 32,949          |                   | \$ 26,401                   |                   | \$ 7,172         |                   | \$ 3,696         | \$ 1,845           |
| Construction in process                           | \$ -               |                   | \$ -                        |                   | \$ 6,253         |                   | \$ 1,154         | \$ -               |
| Other assets                                      | \$ 3,008           |                   | \$ 6,596                    |                   | \$ 5,560         |                   | \$ 1,419         | \$ 1,149           |
| <b>Total assets</b>                               | <b>\$148,799</b>   |                   | <b>\$ 294,858</b>           |                   | <b>\$126,950</b> |                   | <b>\$65,528</b>  | <b>\$ 36,569</b>   |
| Accounts payable                                  | \$ 42,752          |                   | \$ 50,022                   |                   | \$ 51,723        |                   | \$23,078         | \$ 20,106          |
| Notes payable                                     |                    |                   | \$ -                        |                   | \$ -             |                   | \$ -             | \$ 2,900           |
| Short-term debt                                   | \$ 24,653          |                   | \$ 49,571                   |                   | \$ 2,254         |                   | \$ 423           | \$ 124             |
| Unearned revenue                                  | \$ 3,861           |                   | \$ 3,641                    |                   | \$ 3,696         |                   | \$ 1,173         | \$ 764             |
| Accrued expenses                                  | \$ 9,332           |                   | \$ 5,593                    |                   | \$ 17,126        |                   | \$ 8,733         | \$ 6,078           |
| <b>Total current liabilities</b>                  | <b>\$ 80,598</b>   |                   | <b>\$ 108,827</b>           |                   | <b>\$ 74,799</b> |                   | <b>\$33,407</b>  | <b>\$ 29,972</b>   |
| Long-term debt                                    | \$ 632             |                   | \$ 8,459                    |                   | \$ 7,701         |                   | \$ 7,625         | \$ 46              |
| Convertible subordinated debentures               | \$ 80,975          |                   | \$ 80,975                   |                   | \$ -             |                   | \$ -             | \$ -               |
| Unearned revenue                                  | \$ 5,332           |                   | \$ 3,337                    |                   | \$ 1,829         |                   | \$ 635           | \$ 327             |
| <b>Total Liabilities</b>                          | <b>\$167,537</b>   |                   | <b>\$ 201,598</b>           |                   | <b>\$ 84,329</b> |                   | <b>\$41,667</b>  | <b>\$ 30,345</b>   |
| Stockholder's equity                              |                    |                   |                             |                   |                  |                   |                  |                    |
| Preferred Stock                                   | \$ 18              |                   | \$ -                        |                   | \$ -             |                   | \$ -             | \$ -               |
| Common stock                                      | \$ 315             |                   | \$ 313                      |                   | \$ 280           |                   | \$ 134           | \$ 50              |
| Additional paid-in capital                        | \$ 58,630          |                   | \$ 57,678                   |                   | \$ 17,668        |                   | \$12,298         | \$ 574             |
| Retained earnings                                 | \$ (73,829)        |                   | \$ 35,269                   |                   | \$ 24,673        |                   | \$11,429         | \$ 5,600           |
| Treasury Stock                                    | \$ (3,872)         |                   | \$ -                        |                   | \$ -             |                   | \$ -             | \$ -               |
| <b>Total stockholder's equity</b>                 | <b>\$ (18,738)</b> |                   | <b>\$ 93,260</b>            |                   | <b>\$ 42,621</b> |                   | <b>\$23,861</b>  | <b>\$ 6,224</b>    |
| <b>Total liabilities and stockholder's equity</b> | <b>\$148,799</b>   |                   | <b>\$ 294,858</b>           |                   | <b>\$126,950</b> |                   | <b>\$65,528</b>  | <b>\$ 36,569</b>   |

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**Exhibit 5: Excel file available on e-learning—Vertical Analysis of Crazy Eddie’s Income Statement**

| Income Statement - Vertical Analysis        |                     |               | <i>Fraud Discovered</i> |               |                  |               |                  |               | <i>Year of IPO</i> |
|---|---------------------|---------------|-------------------------|---------------|------------------|---------------|------------------|---------------|--------------------|
|   | Year ended          | % of          | Year ended              | % of          | Year ended       | % of          | Year ended       | % of          | Year ended         |
|   | Feb. 28,<br>1988    | sales<br>1987 | March 1,<br>1987        | sales<br>1986 | March 2,<br>1986 | sales<br>1985 | March 3,<br>1985 | sales<br>1984 | May 31,<br>1984    |
| Net Sales                                   | \$ 315,539          |               | \$ 352,523              |               | \$ 262,268       |               | \$ 167,147       |               | \$ 137,285         |
| Cost of goods sold                          | \$ (346,791)        |               | \$ (272,255)            |               | \$ (194,371)     |               | \$ (127,619)     |               | \$ (106,934)       |
| <b>Gross profit</b>                         | <b>\$ (31,252)</b>  |               | <b>\$ 80,268</b>        |               | <b>\$ 67,897</b> |               | <b>\$ 39,528</b> |               | <b>\$ 30,351</b>   |
| Selling, general and administrative expense | \$ (96,195)         |               | \$ (61,341)             |               | \$ (42,975)      |               | \$ (26,431)      |               | \$ (22,560)        |
| Interest and other income                   | \$ -                |               | \$ 7,403                |               | \$ 3,210         |               | \$ 1,418         |               | \$ 706             |
| Interest expense                            | \$ (5,972)          |               | \$ (5,233)              |               | \$ (820)         |               | \$ (572)         |               | \$ (522)           |
| <b>Income before taxes</b>                  | <b>\$ (133,419)</b> |               | <b>\$ 21,097</b>        |               | <b>\$ 27,312</b> |               | <b>\$ 13,943</b> |               | <b>\$ 7,975</b>    |
| Pension contribution                        | \$ -                |               | \$ (500)                |               | \$ (800)         |               | \$ (600)         |               | \$ -               |
| Income taxes                                | \$ 24,321           |               | \$ (10,001)             |               | \$ (13,268)      |               | \$ (6,976)       |               | \$ (4,202)         |
| <b>Net income</b>                           | <b>\$ (109,098)</b> |               | <b>\$ 10,596</b>        |               | <b>\$ 13,244</b> |               | <b>\$ 6,367</b>  |               | <b>\$ 3,773</b>    |

**Exhibit 6: Excel file available on e-learning—Horizontal Analysis of Crazy Eddie’s Income Statement**

| Income Statement - Horizontal Analysis      |                     |                   | <i>Fraud Discovered</i> |                   |                  |                   |                  |                  | <i>Year of IPO</i> |
|---|---------------------|-------------------|-------------------------|-------------------|------------------|-------------------|------------------|------------------|--------------------|
|   | Year ended          |                   | Year ended              |                   | Year ended       |                   | Year ended       | Year ended       |                    |
|   | Feb. 28,<br>1988    | Change<br>86 - 87 | March 1,<br>1987        | Change<br>85 - 86 | March 2,<br>1986 | Change<br>84 - 85 | March 3,<br>1985 | May 31,<br>1984  |                    |
| Net Sales                                   | \$ 315,539          |                   | \$ 352,523              |                   | \$ 262,268       |                   | \$ 167,147       | \$ 137,285       |                    |
| Cost of goods sold                          | \$ (346,791)        |                   | \$ (272,255)            |                   | \$ (194,371)     |                   | \$ (127,619)     | \$ (106,934)     |                    |
| <b>Gross profit</b>                         | <b>\$ (31,252)</b>  |                   | <b>\$ 80,268</b>        |                   | <b>\$ 67,897</b> |                   | <b>\$ 39,528</b> | <b>\$ 30,351</b> |                    |
| Selling, general and administrative expense | \$ (96,195)         |                   | \$ (61,341)             |                   | \$ (42,975)      |                   | \$ (26,431)      | \$ (22,560)      |                    |
| Interest and other income                   | \$ -                |                   | \$ 7,403                |                   | \$ 3,210         |                   | \$ 1,418         | \$ 706           |                    |
| Interest expense                            | \$ (5,972)          |                   | \$ (5,233)              |                   | \$ (820)         |                   | \$ (572)         | \$ (522)         |                    |
| <b>Income before taxes</b>                  | <b>\$ (133,419)</b> |                   | <b>\$ 21,097</b>        |                   | <b>\$ 27,312</b> |                   | <b>\$ 13,943</b> | <b>\$ 7,975</b>  |                    |
| Pension contribution                        | \$ -                |                   | \$ (500)                |                   | \$ (800)         |                   | \$ (600)         | \$ -             |                    |
| Income taxes                                | \$ 24,321           |                   | \$ (10,001)             |                   | \$ (13,268)      |                   | \$ (6,976)       | \$ (4,202)       |                    |
| <b>Net income</b>                           | <b>\$ (109,098)</b> |                   | <b>\$ 10,596</b>        |                   | <b>\$ 13,244</b> |                   | <b>\$ 6,367</b>  | <b>\$ 3,773</b>  |                    |

**Exhibit 7: Excel file available on e-learning—Ratio Analysis**

**Financial Ratio # 1**  
**Ratio Name:**  
**Ratio Formula:**

|   | 1988 | 1987 | 1986 | 1985 |
|---|------|------|------|------|
| <b>Ratios for the years 1985 to 1988:</b> |      |      |      |      |

*(Please link to information on first two tabs)*  
**Discuss any implications for the Crazy Eddie fraud:**

**Financial Ratio # 2**  
**Ratio Name:**  
**Ratio Formula:**

|   | 1988 | 1987 | 1986 | 1985 |
|---|------|------|------|------|
| <b>Ratios for the years 1985 to 1988:</b> |      |      |      |      |

*(Please link to information on first two tabs)*  
**Discuss any implications for the Crazy Eddie fraud:**

**Financial Ratio # 3**  
**Ratio Name:**  
**Ratio Formula:**

|   | 1988 | 1987 | 1986 | 1985 |
|---|------|------|------|------|
| <b>Ratios for the years 1985 to 1988:</b> |      |      |      |      |

*(Please link to information on first two tabs)*  
**Discuss any implications for the Crazy Eddie fraud:**

**Financial Ratio # 4**  
**Ratio Name:**  
**Ratio Formula:**

|   | 1988 | 1987 | 1986 | 1985 |
|---|------|------|------|------|
| <b>Ratios for the years 1985 to 1988:</b> |      |      |      |      |

*(Please link to information on first two tabs)*  
**Discuss any implications for the Crazy Eddie fraud:**

**Financial Ratio # 5**  
**Ratio Name:**  
**Ratio Formula:**

|   | 1988 | 1987 | 1986 | 1985 |
|---|------|------|------|------|
| <b>Ratios for the years 1985 to 1988:</b> |      |      |      |      |

*(Please link to information on first two tabs)*  
**Discuss any implications for the Crazy Eddie fraud:**

### **Assignments**

1. a) Briefly describe the original business model Eddie Antar pursued as well as its novelty and legality; b) What major store chain have you likely visited in recent years that follows this model?
2. The Crazy Eddie fraud can be divided into three phases: a) Crazy Eddie as a closely held private company; b) Crazy Eddie prepares for the IPO; and c) Crazy Eddie as a stock-listed company. List and describe the main violations during these three phases.
3. For the years 1984 to 1987, conduct a horizontal and vertical analysis using the provided Microsoft Excel file (available on e-learning Canvas/Blackboard). Make changes to the Excel Spreadsheet as needed. What red flags are observable?
4. On the third tab in the Microsoft Excel file, for the years 1985 through 1988, calculate five financial ratios of your choosing and discuss in how far they indicate fraud at Crazy Eddie.
5. What additional red flags were visible to a) investors and b) auditors?
6. In how far is the fraud motivation triangle (perceived pressure, perceived opportunity, rationalization) applicable to Eddie Antar?
7. a) How can the fraud element triangle (theft act, concealment, conversion) be used to investigate the Crazy Eddie fraud? b) What component of this triangle proved to be particularly useful for the prosecution?
8. The Antars faced a similar situation as Ramalinga Raju, former Chairman of Satyam, who in part described the Satyam fraud as follows: "It was like riding a tiger, not knowing how to get off without being eaten." a) How is this statement applicable to Crazy Eddie? b) What plan did the Antars have in place to get off their tiger alive and what prevented them from pursuing these plans? c) What happened to the consumer electronics industry in the late 1980s and how does this development relate to the phenomenon referred to by Ramalinga Raju?
9. Penn & Harwood (until 1984), Main Hurdman (1984–1986, then acquired by KPMG), Peat Marwick Main (1987) and Touche Ross (1987–1988, engaged after the takeover) served as the auditors for Crazy Eddie. What, if anything, should the auditors have done differently?
10. a) Briefly list and describe important regulatory changes since the discovery of the Crazy Eddie Fraud; b) In how far is it less likely that a fraud similar to the Crazy Eddie Fraud could be committed in today's regulatory environment?

Instructors should contact the author for the Teaching Notes.

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