

Failure Case for ENTR200 Class Discussion

Based on http://en.wikipedia.org/wiki/Crazy_Eddie accessed 12/13/07



Crazy Eddie was a [consumer electronics](#) chain located primarily in the [Northeastern United States](#)- previously called ERS

Electronics (ERS stood for Eddie, Rose and Sam – Eddie's parents). It was started in 1971 in [Brooklyn, New York](#), by businessmen Eddie and Sam M. Antar. The chain rose to prominence throughout the [Tri-State Region](#) as much for its prices as for its memorable radio and television commercials, featuring a frenetic, "crazy" character promoting the stores (Crazy Eddie spokesman played by [radio DJ Jerry Carroll](#)). At its peak, Crazy Eddie had 43 stores in four states, and earned more than \$300 million in sales.^[1]

In February 1987, the [United States Attorney's Office for the District of New Jersey](#) commenced a federal grand jury investigation into the financial activities of Crazy Eddie. In September of that year, the [United States Securities and Exchange Commission](#) initiated an investigation into alleged violations of federal [securities](#) laws by certain Crazy Eddie officers and employees.

Unable to sustain his fraudulent business practices, co-founder Eddie Antar cashed in millions of dollars worth of stock and resigned from the company in December 1986. Crazy Eddie's board of directors approved the sale of the company in November 1987. The entire Antar family was immediately removed from the business. The new owners quickly discovered the true extent of the Antar family's fraud, but were unable to turn around Crazy Eddie's quickly declining fortunes. In 1989, the company declared [bankruptcy](#) and was [liquidated](#).

Eddie Antar became the focus of SEC and Federal investigations, and was eventually charged with a series of crimes. Antar fled to [Israel](#) in February 1990, but was returned to the United States in January 1993 to stand trial. His 1993 conviction on [fraud](#) charges was overturned, but he eventually pleaded guilty in 1996. In 1997, Antar was sentenced to eight years in prison and received massive fines.

Franchise history

Beginnings

Eddie's grandparents, Murad and Terah Antar, who were ethnically [Syrian Jews](#), moved to New York from [Aleppo, Syria](#). Murad and Terah worked in their market stalls

alongside [Arabs](#), [Egyptians](#), other [Syrians](#), and [Turks](#). Eddie's father Sam Antar was a retailer, and it was no surprise to the family that Eddie followed in his father's and grandparents' footsteps.^[2]

The predecessor to Crazy Eddie was a consumer electronics store called Sight and Sound. It was a property of ERS Electronics, a company owned by Sam M. Antar, his son Eddie Antar, and Eddie's cousin Ronnie Gindi. Sight and Sound, located on Kings Highway in Brooklyn, opened its doors in 1969 and offered electronics at regular prices. Due to his extremely aggressive sales techniques, Eddie quickly became known as "Crazy Eddie." Despite his technique, within 18 months the store (as well as Eddie and Ronnie) was nearly bankrupt.^[2]

Sam M. bought out Gindi's one-third ownership stake of Sight and Sound, and essentially turned the store over to Eddie (Sam M. retained his one-third stake but left the day-to-day operations to Eddie). Eddie opened a new store in 1971, just a few blocks from Sight and Sound's old location, and called it Crazy Eddie's Ultra Linear Sound Experience. Eddie continued his high-pressure sales tactics at the new store, but this time met with success. In 1973, Antar opened the second Crazy Eddie location. A third followed in 1975, located in [Manhattan](#). That year, Antar established a corporate headquarters.^[2] On another note the Antars are related to the Jemals of Wiz fame.



Crazy Eddie was known for its humorous advertising campaign, featuring Jerry Carroll.

Locations

Connecticut

- [Norwalk](#)
- [Orange](#)

- [Hamden](#)
- [Bridgeport](#)

New Jersey

- [East Brunswick](#)
- [Paramus](#)
- [Toms River](#)
- [Union](#)

New York

- [Hartsdale](#)
- [Nanuet](#)

- [New York City](#): ([Bronx](#), [Brooklyn](#), [Manhattan](#)) (3))
- [Syosset](#)
- [Westbury](#)

Advertising

An essential part of Crazy Eddie's success was its advertising campaign. In 1972, [WPIX-FM](#) late-night [disc jockey](#) Jerry "Dr. Jerry" Carroll ended a live commercial with the now-famous slogan, "Crazy Eddie, his prices are IN-SA-A-A-A-A-ANE!" Antar called in and told Carroll to say the line the same way every time.^[2]

Beginning in 1975, Carroll starred in a series of humorous television commercials, each ending with the same frenetic slogan. Among the more memorable promotions featured by Crazy Eddie was the annual "[Christmas](#) in [August](#)" sale.^[2] In the 1980s, more than 7,500 unique radio and television ads were aired in the [Tri-State Region](#). Carroll's acting was so convincing, and he became so identified with the company that many people thought he was actually Crazy Eddie.^{[1][3]}

Fraud

Almost from the beginning, Crazy Eddie's management was engaged in various forms of fraud. The Antars paid employees off the books, and regularly skimmed thousands of dollars (in [cash](#)) earned at the stores. For every \$5 Crazy Eddie reported as income, \$1 was taken by the Antars. In 1979, the Antars began depositing much of this money (hundreds of thousands of dollars) in Israeli bank accounts. The Antar family skimmed an estimated \$3-\$4 million (US) per year at the height of their fraud. In one offshore bank account, the family deposited more than \$6 million between 1980 and 1983.^[2]

In preparation for taking Crazy Eddie [public](#), Eddie Antar initiated a scheme in 1979 to skim less each year. Since more income was actually being reported, this had the effect of showing drastically increasing profit margins. While the company's actual profits (taking into account skimmed profits) from 1980 to 1983 increased approximately 13%, reported profits rose nearly 37%.^[4]

Despite the misgivings of people closely associated with Crazy Eddie, the company held its [initial public offering](#) on [September 13, 1984](#) ([symbol](#): CRZY). Shares of the company sold initially for \$8. By early 1986, Crazy Eddie [stock](#) was trading at more than \$75 per share (split adjusted).^[1]

Eddie recruited his nephew, Sam E. Antar (known as Sammy), to assist the company with its fraud. Sammy earned a degree in [accounting](#) in 1980, and served his apprenticeship with Penn and Horowitz, Crazy Eddie's auditor. In 1986, he was named [CFO](#) of the company. Sammy was informed that there was a \$3 million deficit from the previous year's inventory fraud that needed to be hidden. Additionally, he was instructed to find ways to show a \$10 million growth in sales.^[2]

One of Sammy's major schemes was a [money laundering](#) operation later known as the Panama Pump — money that the Antars had deposited in Israeli banks was transferred to bank accounts in [Panama](#). These accounts, opened under false names, then drafted payments to Crazy Eddie. This money was largely used to inflate same-store sales figures for the company.^[2]

As the skimming decreased, Eddie and Sammy engaged in increasing amounts of inventory fraud. For the [fiscal year](#) ended [March 1, 1986](#), Crazy Eddie falsified store level inventories by \$3 to \$4 million. The next fiscal year, that amount increased to between \$15 and \$20 million. But by 1987, Sammy's goal was no longer to show profitability, but rather to cover up previous frauds.^{[2][4]}

Collapse

As the company's fraud became harder to cover up, the public perception of Crazy Eddie as a commercial success began to change. By October 1986, the company's stock value had dropped to \$17.50 per share. In December, Eddie Antar announced his resignation as president and CEO. In April 1987, it was announced that Eddie had in fact retained his role as president but had fired, among others, his father Sam M. Antar. But by then Eddie had already cashed out his share of Crazy Eddie stock, worth between \$25 and \$30 million.^[2]

By the spring of 1987, the company's stock had plummeted below \$10 a share. Additionally, earnings fell 20 percent from the previous year. The franchise did show a 34 percent sales increase, but this was mainly the result of 13 new store openings.^[2] In May 1987, Eddie began proceedings to take the company [private](#) again.^[5]

Before that could happen, [Houston](#)-based businessman Elias Zinn and management consultant Victor Palmieri initiated a hostile [takeover](#). With Palmieri's backing, Zinn purchased \$17.5 million worth of Crazy Eddie stock, which represented 7½ percent of the outstanding shares. Once rumors of a takeover started, financial analysts began to more closely examine Crazy Eddie's financial situation. What they discovered was that while most stockholders in the company had lost money since 1984, Eddie Antar had sold 6.5 million shares worth \$74 million. A flurry of stockholder lawsuits was filed against the Antar family.^[2]

Eddie and Sammy briefly attempted to counter-offer Zinn's takeover, but Zinn quickly topped their funds. The Antars' bid was dropped, and Zinn became the new owner of Crazy Eddie on [November 6, 1987](#). He immediately removed the rest of the Antar family from any positions of power. When Palmieri's financial analysts completed their preliminary audit, a few weeks after the takeover, they estimated that Crazy Eddie's inventory was short by \$40 to \$50 million. The final figure was \$80 million.^{[2][5]}

Legal battles

In the meantime, a longtime Crazy Eddie associate named Arnie Spindler, who was himself under investigation by the [SEC](#), had provided investigators with information concerning Crazy Eddie's fraudulent business practices. Spindler implicated Eddie and Sammy, but stated the rest of the family was clean. Regardless, the SEC served [subpoenas](#) to the entire Antar family.^[2]

By June 1988, Crazy Eddie's suppliers were demanding the [liquidation](#) of the company, so they could recover \$860,000 owed to them.^[2] On [June 21, 1989](#), Crazy Eddie filed for [Chapter 11](#) bankruptcy protection.^[6] Numerous store closings soon followed. Based on information gathered over the course of its investigation, the SEC charged Eddie Antar with [securities fraud](#) and illegal [insider trading](#) on [September 6, 1989](#).^[7] In January 1990, a Federal district judge ordered Antar to repatriate more than \$50 million he had illegally transferred to Israel. He was also ordered to appear in court to explain what had happened with the money. When he failed to appear, an [arrest warrant](#) was issued. Antar surrendered to [U.S. Marshals](#) a week later, but was released and ordered to appear at a second hearing. When he failed to appear at that hearing, a second arrest warrant was issued and his assets were frozen.^[2]



February 27, 1990 arrest warrant for Eddie Antar.

Antar fled to Israel using a fake [passport](#) and the [alias](#) David Jacob Levi Cohen, and purchased a townhouse in the city of [Yavne](#). After Eddie left the country, Sammy offered to testify for Federal prosecutors in exchange for [immunity](#). He avoided jail time for his testimony, and was instead sentenced to six months of [house arrest](#), 1,200 hours of [community service](#), three years of [probation](#), and was given more than \$10,000 in fines.^{[2][8]}

Antar was arrested near [Tel Aviv](#) in June 1992. While being held in Israel, Antar was charged with Federal [racketeering](#) conspiracy. He was extradited to the United States in January 1993, and pled not guilty to the charges brought against him. Antar's fraud trial began in June, and was prosecuted jointly by [U.S. Attorneys](#) Paul Weissman and [Michael Chertoff](#). On [July 20, 1993](#), Eddie Antar was found guilty on 17 counts of fraud. His brother, Mitchell, was found guilty on three counts, and acquitted on two.^[2]

In April 1994, Eddie Antar was sentenced to 12½ years in prison for racketeering and stock fraud. Antar's lawyers immediately filed an appeal, citing what they believed was bias on the part of the presiding judge. In April 1995, the verdicts against Eddie and Mitchell were overturned by a Federal appeals panel. Chertoff, calling Eddie "the [Darth Vader](#) of [capitalism](#)," vowed to begin a new trial.^[2]

Antar eventually pled guilty to Federal fraud charges in May 1996. In February 1997, he was sentenced to eight years in [prison](#). He was ordered to pay more than \$150 million in

finances, in addition to the more than \$1 billion in judgments against him, stemming from various civil suits. Efforts to recover additional money from the Antar family on behalf of defrauded stockholders continue to this day.^[2]

Revival attempt

In 1998, the grandchildren of Eddie, Allen, and Mitchell Antar revived the Crazy Eddie electronics chain with a store in [Wayne, New Jersey](#), and as an online Internet venue.^[9] However, in 2004 Crazy Eddie went out of business again. The Crazy Eddie [trademark](#) and associated [intellectual property](#) were then acquired by [Texas](#)-based firm Trident Growth Fund.^[3] In July 2006, Trident attempted to auction off the brand and the domain name crazyeddie.com on [eBay](#), to limited success.^[3] The auction ended without the reserve price being met, the highest bid being \$30,100 ([US](#)).

References

- ^[1] ^a ^b ^c ["Only in New York \(Part 2\)"](#). Retrieved on September 7, 2006.
- ^[2] ^a ^b ^c ^d ^e ^f ^g ^h ⁱ ^j ^k ^l ^m ⁿ ^o ^p ^q ^r ^s ^t Wells, Joseph T. *Frankensteins of Fraud: The 20th Century's Top Ten White-Collar Criminals*. Obsidian Pub. Co. , 2000. [ISBN 1-889277-25-8](#)
- ^[3] ^a ^b ^c [Crazy Eddie press release](#). Retrieved on July 3, 2006.
- ^[4] ^a ^b ["Crazy Eddie Fraud Summary"](#). Retrieved on September 7, 2006.
- ^[5] ^a ^b ["The Story Behind the Story of Crazy Eddie"](#). Retrieved on September 7, 2006.
- ^[6] ^a ["Crazy Eddie In Chapter 11"](#). Retrieved on September 7, 2006.
- ^[7] ^a ["S.E.C. Files Fraud Case On Retailer"](#). Retrieved on September 7, 2006.
- ^[8] ^a ["Criminal and Civil Cases"](#). Retrieved on September 7, 2006.
- ^[9] ^a ["Crazy Eddie's Returning, Minus 2 Jailed Founders"](#). Retrieved on September 7, 2006.

External links

- [Crazy Eddie Insane Tribute Page](#)
- [CE history page?](#)
- [CE Commercials](#)
- [Crazy Eddie MBA Case Study](#)