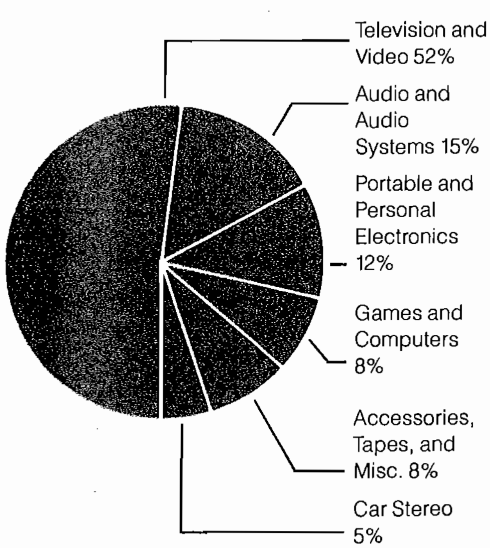
Crazy Eddie Annual Report 1986

Letter To Shareholders

PRODUCT SALES BY CATEGORY



Dear Shareholder:

The fiscal year ended March 2, 1986—our first full year as a publicly-owned Company—was a very good year for Crazy Eddie, Inc. We are particularly proud that it was our 17th consecutive year of record sales and net income.

Net income for the fiscal year increased 108% to $13,244,000, equal to 96 cents per share, on net sales of $262,268,000, an increase of 56.9% over the prior year. This compares to net income of $6,367,000, or 55 cents per share, on net sales of $167,147,000 for the twelve months ended March 3, 1985. Earnings per share, after giving effect to a 100% stock dividend declared in July 1985, rose 75% over the comparable period of the prior year. Comparable or "same store" Crazy Eddie store sales for the 1986 fiscal year rose 17%.

The year was an exciting, fast-paced, meaningful one for Crazy Eddie; eight new stores were added during the year, bringing the total number of stores in operation at year-end to 23, and eleven new leases have been signed for future stores.

During the year, Crazy Eddie reinforced its position as one of the leading consumer electronics and home entertainment retailers in the tri-state New York metropolitan area. Sales per square foot of selling spece rose 22% to $2,903 during the year compared to $2,368 reported a year ago. Gross profit per square foot increased 32% to $753 versus $569 reported a year ago. Average sales per store rose 10% to $13,305,000 compared to $12,081,000 for the prior year.

We believe that the sales per square foot of selling space and the gross profit per square foot are among the highest in retailing. This is a record that Crazy Eddie is very proud to have achieved in what is considered to be the most competitive marketplace in the U.S.

Without a doubt, our most valuable asset is the strong consumer franchise we have been able to build with the greater metropolitan New York consumer. Crazy Eddie has invested over $50 million in advertising—TV, radio and print—over the past decade and has built a unique "share of mind" in the New York marketplace in consumer electronics.

Crazy Eddie is in the HOME ENTERTAINMENT business. The Company traces its origins back to the audio business on Kings Highway in Brooklyn, but it was among the first major consumer electronics retailers to diversify broadly into home entertainment. Today's diverse product line also includes personal electronics, car stereo, home computers, telephones, microwave ovens, air conditioners, electric fans, humidifiers and other small home appliances.

Crazy Eddie's success is based upon:

- A wide selection of quality, brand-name products.
- Superior selling and merchandising techniques.
- An aggressive, discounted pricing policy.
- A comprehensive customer service policy.

These policies spell out CUSTOMER SATISFACTION which is the ultimate driving force behind the success of the Crazy Eddie business.

During the year, Crazy Eddie continued to follow a disciplined, carefully-measured expansion program in the New York metropolitan area. But the current plan also calls for reaching out towards northern Connecticut and southern New Jersey as well. There is growing evidence of consumer acceptance of the Crazy Eddie "name," which augurs well for continuing additional growth outside of New York as well.

We plan to occupy our new 210,000 square foot corporate headquarters and central warehouse in Edison, New Jersey early this summer, and plan to hold our Annual Meeting of Shareholders there on Tuesday, July 22. The move to Edison should go smoothly because during the past year the Company's rapid growth necessitated a temporary shift out of its distribution center in Brooklyn to South Plainfield, NJ, only ten minutes away from Edison. This major move from three scattered warehouse locations in Brooklyn took place over a single weekend with no disruption in daily store deliveries. Careful planning for the new warehouse gives us confidence that the move to Edison will take place with similar success.

The new corporate facility at Edison will not only bring together for the first time all the varied staff and line functions under one roof, but it should also significantly improve productivity. In addition to the 150,000 square feet of warehouse space originally planned for Edison, the Company also plans to lease 120,000 square feet of additional warehouse space only minutes away from Edison to further its distribution capability, and to support planned additional expansion.

Fiscal 1986 was an important year for Crazy Eddie in still another important respect. We continued our record of having the highest sales per employee and the highest sales per salesperson among all the publicly-owned consumer electronics companies. That's the real "bottom line" of the Crazy Eddie business—unparalleled productivity—which comes from working as a team, part of the unique Crazy Eddie "culture" that sets the Company and its employees apart from the competition.

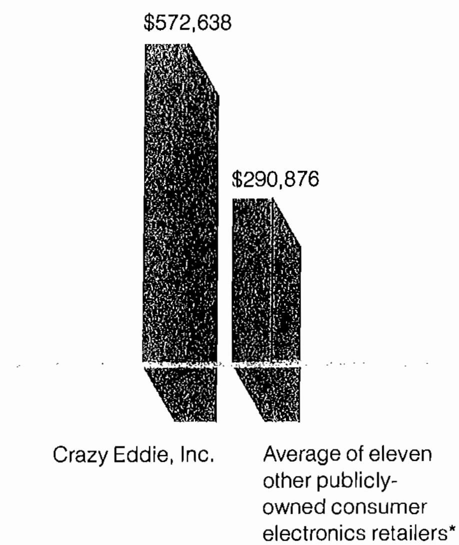
I would like to thank all of our dedicated employees, our vendors, and shareholders for their confidence and support during the year.

Sincerely,

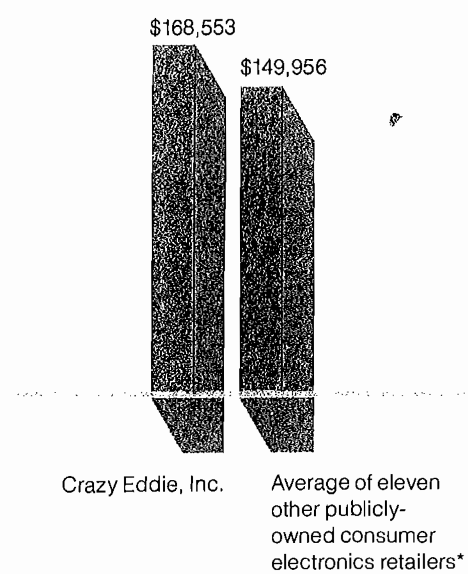
Eddie Antar
Chairman, President
and Chief Executive Officer

June 2, 1986

SALES PER SALESPERSON (Fiscal 1986)



SALES PER EMPLOYEE (Fiscal 1986)



* Audio/Video Affiliates, Inc.
Best Buy Company, Inc
Circuit City Stores, Inc.
The Federated Group, Inc.
Fretter, Inc.
Good Guys, Inc.
Highland Superstores, Inc.
Luskin's, Inc.
Newmark & Lewis, Inc.
Stereo Village, Inc.
Wall to Wall Sound & Video, Inc.

Over the years, those living in and around New York City have become obsessed with the ability to buy the newest products first, at the lowest price. It is part of the "New York experience" and just as easily acquired by a young college graduate from Long Island or a similarly career-inspired transplant from Great Falls, Montana. This frenetic shopping and buying activity is fueled by low-price advertising from small, independent retailers willing to operate at a lower margin of profit than is normally acceptable. Consumers are therefore conditioned to "shop price." Tourists from all over the world today buy televisions, VCRs, stereos and other gear in New York, and lug them home. The city's merchants have convinced millions of people outside of the market that New York offers the closest-to-wholesale prices available on factory-fresh goods.

So, Crazy Eddie has no "largest competitor." The competitors are everywhere. Yet the Company has differentiated itself from the pack by becoming part of the New York genre—part of the local color and vernacular. Today, few New Yorkers indeed cannot discuss electronics without thinking of Crazy Eddie.

This universal appeal has been achieved through the investment of more than $50 million over the past decade in a steady continuous advertising blitz in local TV, radio and now newspaper advertising. Market share is the campaign's driving thrust as Crazy Eddie steadily paves the way for continued long-term growth.

Crazy Eddie was one of the first electronics retailers in America to advertise on both television and radio. At the heart of the campaign is the Crazy Eddie "pitchman," Jerry Carroll, who stars in television and radio spots that emphasize Crazy Eddie as the one and only source for the widest selection of consumer electronics at market-leading prices. If you're in New York, you can't escape the ubiquitous Carroll. He's there when the radio alarm goes off in the morning, on the car stereo, the radio at the office, and shouting at you on television at night. Seven days a week, 365 days a year. There's simply no getting away from Jerry Carroll!

A recent study by a leading New York advertising agency commissioned by a leading consumer products company looking for a spokesman in New York, found that Carroll has achieved practically 100 percent recognition among New York-area consumers for the Crazy Eddie brand name. About 95 percent of consumers react positively to Carroll, according to the ad agency's research.

As new stores are opened, the corporate advertising umbrella, held firmly by Carroll, is opened a little wider. There's no telling how far this umbrella could expand, but new media are added as the chain expands—with the same results.

The success of the Crazy Eddie advertising and promotional formula is a prime reason why the people of the "Big Apple" wait in line at store openings. Why they put on their free T-shirts, and blow up their balloons.

And why they buy at Crazy Eddie—"shop around, get the lowest sale prices you can find, then bring those prices to Crazy Eddie and we'll beat them. Our prices are insane."

Financial Statements

Selected Financial Data

(In Thousands, Except per Share Data)

	Year Ended March 2, 1986	Nine Months Ended March 3, 1985	Year ended May 31, 1984	1983	1982
Net sales	**$262,268**	$136,319	$137,285	$111,406	$ 98,225
Cost of goods sold	**194,371**	103,421	106,934	87,719	76,754
Gross profit	**67,897**	32,898	30,351	23,687	21,471
Selling, general and administrative expense	**42,975**	20,508	22,560	19,194	18,061
Other income	**3,210**	1,211	706	594	748
Interest expense	**820**	438	522	450	754
Income before pension contribution and income taxes	**27,312**	13,163	7,975	4,637	3,404
Pension contribution	**800**	600		2,507	2,377
Income taxes	**13,268**	6,734	4,202	1,235	555
Net income	**$ 13,244**	$ 5,829	$ 3,773	$ 895	$ 472
Weighted average number of shares	**13,832**	12,106	10,000	10,000	10,000
Net income per share	**$ .96**	$ .48	$ .37	$ .09	$ .05
Cash dividends declared per share	**$ —**	$ —	$ —	$ —	$ —
Working capital (deficiency)	**$ 29,810**	$ 18,794	($ 2,136)	($ 2,506)	($ 1,424)
Total assets	**$126,950**	$ 65,528	$ 36,569	$ 24,707	$ 21,434
Long-term debt	**$ 7,701**	$ 7,625	$ 46	$ 70	$ 106
Stockholders' equity	**$ 42,621**	$ 23,861	$ 6,224	$ 2,951	$ 2,057

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table sets forth, for the periods indicated, the relative percentage that certain items in the Company's Consolidated Statement of Operations bear to net sales:

	Income and Expense Items as a Percentage of Net Sales		
	Year ended March 2, 1986	Nine Months ended March 3, 1985	Year ended May 31, 1984
Cost of goods sold	74.1	75.9	77.9
Selling, general and administrative expense	16.4	15.0	16.4
Interest expense	.3	.3	.4
Income before pension contribution and income taxes	10.4	9.7	5.8
Pension contribution	.3	.4	
Income taxes	5.0	4.9	3.1
Net income	5.0	4.3	2.7

RESULTS OF OPERATIONS

Twelve months ended March 2, 1986 Compared to twelve months ended March 3, 1985

Net sales for the year ended March 2, 1986 were $262.3 million, representing an increase of $95.1 million or 56.9% over the comparable period ended March 3, 1985. Of this increase, $78.6 million resulted from the effect of additional stores in operation during the year ended March 2, 1986. Sales to affiliates decreased $1.9 million during the year ended March 2, 1986. The balance of the increase ($18.4 million) resulted from increased sales at the stores that were open throughout both periods. Comparable store sales for the 1986 fiscal year rose 17% over the prior year. Sales per square foot rose 22% during 1986 from $2,368 to $2,903 per square foot, while average sales per store rose 10% to $13.3 million compared to $12.0 million during the twelve months ended March 3, 1985.

Gross profit (net sales less cost of goods sold) increased $28.3 million for the year ended March 2, 1986, as compared with the twelve months ended March 3, 1985. This increase was primarily due to the increase in sales discussed above. Gross profit as a percentage of sales approximated 25.9% for the year ended March 2, 1986 as compared to 23.6% for the twelve months ended March 3, 1985. The additional working capital generated from operations and public offerings of the Company's common stock has enabled the Company to negotiate improved buying terms with many of the Company's vendors. In addition, the increase in sales of service contracts increased gross profit by approximately 1.0%.

Selling, general and administrative expenses increased by $16.5 million during the year ended March 2, 1986, which increase principally reflects the costs of operating the eight new stores opened. The increase in the percentage of selling, general and administrative expenses to sales during the year ended March 2, 1986 (16.4% compared to 15.8% during the twelve months ended March 3, 1985) primarily resulted from the Company authorizing bonuses, writing off the cost of its existing computer system in light of the Company's planned installation of a new computer system, and writing off pre-opening costs on all new stores as incurred.

The effective tax rate for the year ended March 2, 1986 approximated 50.0% compared to 52.3% for the twelve months ended March 3, 1985. The reduction in the effective rate resulted from tax benefits in connection with the exercise of nonqualified stock options for which deferred taxes were not provided at the time the options were granted, and the reversal of tax reserves established prior to the Company's initial public offering, which are no longer required, in connection with various tax shelters.

Nine months ended March 3, 1985 Compared to nine months ended February 29, 1984.

Net sales for the nine months ended March 3, 1985 were $136.3 million, representing an increase of $29.9 million, or 28.1%, over the comparable period ended February 29, 1984. Of this increase, $19.3 million resulted from the inclusion for nine months ended March 3, 1985 of net sales attributable to new stores and relocated stores not open for both periods. Sales to affiliates decreased $1.4 million during the period. The balance of the increase ($12.0 million) resulted from increased sales at the eleven stores that were open throughout both periods.

Gross profit (net sales less cost of goods sold) increased by $9.1 million for the nine months ended March 3, 1985 compared to the comparable period ended February 29, 1984. Gross profit as a percentage of net sales approximated 24.1% for the nine months ended March 3, 1985 compared to 22.3% for the nine months ended February 29, 1984 as a result of improvements in purchasing.

Selling, general and administrative expenses increased by $3.9 million during the nine months ended March 3, 1985 as compared with the nine months ended February 29, 1984. This increase was primarily due to the additional costs incurred at the new stores during the period. Selling, general and administrative expenses as a percentage of net sales approximated 15.0% and 15.6% for the nine months ended March 3, 1985 and February 29, 1984, respectively.

The Company authorized a $600,000 contribution to its profit sharing plan for the nine months ended March 3, 1985. No contribution was required for the nine months ended February 29, 1984. See Note 5 of Notes to Consolidated Financial Statements.

The effective tax rate for the nine months ended March 3, 1985 approximated 53.6% compared to 55.0% for the nine months ended February 29, 1984. See Note 4 of Notes to Consolidated Financial Statements for an analysis of income tax expense.

Liquidity and Capital Resources

During the fiscal year ended March 2, 1986, the Company generated $14.8 million in working capital from operations. During the nine months ended March 3, 1985 and the year ended May 31, 1984, $6.2 million and $4.2 million, respectively, in working capital was generated from operations. At March 2, 1986 and March 3, 1985, the Company had working capital of $29.8 million and $18.8 million, respectively. At May 31, 1984, the Company had a working capital deficiency of $2.1 million.

During the period ended March 3, 1985 (prior to the Stock Dividend), the Company raised approximately $11.8 million from its initial public offering of 1.7 million shares (3.4 million shares after giving retroactive effect to the Stock Dividend) of Common Stock completed in September 1984. On March 20, 1985, the Company sold to the public an additional 200,000 shares (400,000 shares after giving retroactive effect to the Stock Dividend) which raised approximately $3.9 million.

Subsequent to March 2, 1986, the Company sold to the public 1,495,000 shares of common stock, which raised approximately $37.0 million. Proceeds from the Company's public offerings have been, and will continue to be, used for general corporate purposes including, but not limited to, opening new stores, financing the renovation and remodeling of existing stores and providing general working capital. In addition, a portion of such proceeds, together with other working capital. In addition, a portion of such proceeds, together with other working capital of the Company, may be used to finance the acquisition of related businesses if the Company identifies suitable prospects. There are no agreements or understandings, and the Company is not involved in any discussion or negotiations, with respect to any such acquisition. Any additional funds necessary for expansion or acquisitions may be obtained through bank borrowings, internal sources or additional debt or equity offerings.

On December 21, 1984, the Company obtained a $7.8 million loan from the New Jersey Economic Development Authority, the proceeds of which have been used to finance the construction of the Company's new headquarters facility in Edison, New Jersey. The loan bears interest at a rate equal to 75% of the prime rate of a commerical bank, subject to maximum and minimum interest rates per annum of 14% and 7½%, respectively, and is repayable in varying installments through 2015.

In past years, the Company's capital expenditures, incurred principally in connection with the opening of new stores, were financed almostly entirely out of internally generated funds and the proceeds of the Company's public offerings. The Company intends to continue to use internally generated funds, together with a portion of the proceeds from the public offerings, to finance its expansion plans. Since March 2, 1986, the Company has opened two new stores in the Borough of Manhattan in New York City. The Company's current expansion plans include the opening of seven stores during the remainder of the 1987 fiscal year and four additional stores before the end of calendar 1987, as well as a twelfth new store at the Company's new headquarters facility in Edison, New Jersey, expected to open by the end of 1986.

Impact of Inflation

In the Company's opinion, inflation has not had a material impact upon its operating results because technological advances in the type of products sold by the Company, together with increased competition among the Company's vendors, have kept the price of such products stable, and, in some instances, have caused prices to decline.

KMG Main Hurdman

Certified Public Accountants

The Board of Directors
Crazy Eddie, Inc.

We have examined the consolidated balance sheet of Crazy Eddie, Inc. and subsidiaries as of March 2, 1986 and March 3, 1985, and the related consolidated statements of operations, changes in stockholders' equity and changes in financial position for the year ended March 2, 1986, the nine months ended March 3, 1985 and the year ended May 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Crazy Eddie, Inc. and subsidiaries at March 2, 1986 and March 3, 1985, and the results of their operations and the changes in their financial position for the year ended March 2, 1986, the nine months ended March 3, 1985 and the year ended May 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

KMG Main Hurdman

New York, New York
May 1, 1986

Consolidated Balance Sheet

	March 2, 1986	March 3, 1985
	(In Thousands)	
ASSETS		
Current assets:		
Cash	**$ 13,296**	$ 7,216
Short-term investments	**26,840**	15,057
Due from American Express Co.	**2,246**	1,875
Merchandise inventories	**59,864**	26,543
Prepaid expenses and other current assets	**2,363**	1,510
Total current assets	**104,609**	52,201
Restricted cash	**3,356**	7,058
Property, plant and equipment, less accumulated depreciation and amortization of $2,922,000 and $1,877,000	**7,172**	3,696
Construction in process	**6,253**	1,154
Other assets	**5,560**	1,419
	$126,950	$65,528
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	**$ 2,254**	$ 423
Accounts payable	**51,723**	23,078
Unearned service contract revenue	**3,696**	1,173
Accrued liabilities:		
Income taxes	**11,071**	6,020
Compensation and payroll taxes	**2,296**	574
Sales tax payable	**2,035**	1,201
Pension	**800**	600
Other	**924**	338
Total current liabilities	**74,799**	33,407
Long-term debt, less current maturities	**7,701**	7,625
Unearned service contract revenue	**1,829**	635
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock—par value $1.00 per share; authorized 5,000,000 shares, none issued		
Common stock—par value $.01 per share; authorized 50,000,000 shares, outstanding 14,005,421 and 13,400,000 shares, respectively	**140**	134
Additional paid-in capital	**17,808**	12,298
Retained earnings	**24,673**	11,429
Total stockholders' equity	**42,621**	23,861
	$126,950	$65,528

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Operations

Year ended March 2, 1986, nine months ended March 3, 1985 and year ended May 31, 1984	**1986**	1985	1984
	(In Thousands, Except Per Share Amounts)		
Net sales	**$262,268**	$136,319	$137,285
Cost of goods sold	**194,371**	103,421	106,934
Gross profit	**67,897**	32,898	30,351
Selling, general and administrative expense	**42,975**	20,508	22,560
	24,922	12,390	7,791
Other income	**3,210**	1,211	706
Interest expense	**(820)**	(438)	(522)
Income before pension contribution and income taxes	**27,312**	13,163	7,975
Pension contribution	**800**	600	
Income before income taxes	**26,512**	12,563	7,975
Income taxes	**13,268**	6,734	4,202
Net income	**$ 13,244**	**$ 5,829**	**$ 3,773**
Earnings per share	**$.96**	$.48	$.37
Weighted average number of shares outstanding	**13,832**	12,106	10,000

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Stockholders' Equity

Year ended March 2, 1986, nine months ended March 3, 1985 and year ended May 31, 1984	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Number of Shares	Par Value			
			(In Thousands)		
Balance, June 1, 1983	5,000	$ 50	$ 574	$ 2,327	$ 2,951
Net income				3,773	3,773
Effect of deemed dividend				(500)	(500)
Stock split effected in the form of a dividend	5,000	50	(50)		
Balance, May 31, 1984	10,000	100	524	5,600	6,224
Net income				5,829	5,829
Issuance of 3,400,000 shares (net of issuance costs)	3,400	34	11,774		11,808
Balance, March 3, 1985, as restated	13,400	134	12,298	11,429	23,861
Net income				13,244	13,244
Issuance of 605,421 shares (net of issuance costs and credit of approximately $725,000)	605	6	5,510		5,516
Balance, March 2, 1986	14,005	$140	$17,808	$24,673	$42,621

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Financial Position

Year ended March 2, 1986, nine months ended March 3, 1985 and year ended May 31, 1984	**1986**	1985	1984
		(in Thousands)	
Working capital provided from:			
Net income	**$13,244**	$ 5,829	$3,773
Add charges not affecting working capital:			
Depreciation and amortization	**1,044**	417	410
Loss on disposal of equipment	**506**	8	29
Working capital provided from operations	**14,794**	6,254	4,212
Reduction in advances to affiliates		7,140	4,639
Increase in unearned service contract revenue	**1,194**	309	97
Issuance of common stock—net	**5,516**	11,809	
Decrease in restricted cash	**3,702**		
Insurance proceeds			14
Increase in long-term debt	**700**	8,236	
Total working capital provided	**25,906**	33,748	8,962
Working capital used for:			
Increase in restricted cash		7,058	
Deemed dividend (Note 1)			500
Advances and sales to affiliates, net		1,401	7,494
Reduction in long-term debt	**624**	658	24
Acquisition of property, plant and equipment	**4,986**	2,277	470
Construction in process	**5,099**	1,154	
Increase in other assets	**4,181**	270	104
Total working capital used	**14,890**	12,818	8,592
Increase in working capital	**$11,016**	$20,930	$ 370
Changes in working capital consisted of:			
Increase (decrease) in current assets:			
Cash	**$ 6,080**	$ 5,840	($ 974)
Short-term investments	**11,783**	15,057	
Due from American Express Co.	**371**	879	162
Merchandise inventories	**33,321**	3,200	8,039
Prepaid expenses and other current assets	**853**	(612)	1,660
	52,408	24,364	8,887
Increase (decrease) in current liabilities:			
Loans payable—officers and other			(1,968)
Current maturities of long-term debt	**1,831**	(2,601)	2,895
Accounts payable	**28,645**	2,971	6,108
Unearned service contract revenue	**2,523**	410	114
Accrued liabilities	**8,393**	2,654	1,368
	41,392	3,434	8,517
Increase in working capital	**$11,016**	$20,930	$ 370

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(Tables Included in the Accompanying Footnotes are in Thousands Except for Per Share Data)

1—Reorganization

In December 1983, the stockholders of Crazy Eddie, Inc., a New York corporation, contributed all of the outstanding shares of common stock of Crazy Eddie, Inc. to a newly organized Delaware corporation in exchange for 5,000 shares of its common stock. During September 1984, the New York corporation was merged into the new Delaware corporation (the "Company"). In connection with the merger, the Company declared a stock dividend of 999 shares of common stock for each of the 5,000 shares of common stock outstanding, which increased the number of outstanding shares of common stock to 5,000,000 shares. During September 1984, the Company sold to the public 1,700,000 shares of common stock (including 300,000 shares pursuant to an over-allotment option granted to the underwriters) at a price of $8 per share.

In September 1984, the Company contributed an investment in an oil and gas limited partnership (the "Partnership") with a net carrying value of $140,000 at May 31, 1984, together with note obligations of $1,125,000 and cash of approximately $500,000 (which amount represented the estimated discounted present value of such note obligations), to a newly formed subsidiary of the Company, C.E. Holdings, Inc. ("Newco"), the stock of which was then transferred to Eddie Antar and Sam Antar. The cash transfer of approximately $500,000 has been accounted for as a deemed dividend in the accompanying consolidated financial statements. In addition, the Company will recognize taxable income of approximately $625,000 (which represents the excess of the $1,125,000 face amount of the note obligation over the $500,000 cash transfer) in connection with such contribution and believes that the tax payable with respect to such taxable income will approximate $200,000. Such amount has been provided for in the accompanying financial statements. The Company has received an assessment notice from the Internal Revenue Service pursuant to which deficiencies in the aggregate amount of $461,526 (plus interest) were assessed against the Company as a result of the disallowance on audit of certain of the tax deductions previously taken by the Company with respect to its investment in the Partnership. Newco has indemnified the Company against such tax liability, and Eddie Antar and Sam Antar have guaranteed the performance of Newco's indemnification obligation.

In addition, also during September 1984, the Company transferred to Eddie Antar and Sam Antar another oil and gas investment in consideration of the payment by them to the Company of $5,000, which amount represented the estimated current value of such investment as determined by an independent appraisal. Eddie Antar and Sam Antar have indemnified the Company with respect to any liabilities in connection with this investment, other than with respect to the deduction of approximately $270,000 (which amount represents the Company's allocable share of the losses generated by this investment) taken by the Company during the year ended May 31, 1982 in respect of such investment.

The foregoing transactions have been accounted for in a manner similar to a pooling of interests pursuant to Accounting Principles Board Opinion No. 16. Accordingly, the financial statements for all periods presented have been restated to retroactively reflect the reorganization and stock dividend.

2—Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries (collectively referred to as Crazy Eddie, Inc. or the Company), all of which are wholly owned.

Inventories

Merchandise inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or market. Purchase discounts and trade allowances are recognized when received.

In accordance with industry practice, a substantial portion of the merchandise inventory has been purchased from suppliers under credit terms which grant the creditor a security interest in the inventory through the use of trust receipts.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation and amortization are computed using the straight-line method, based on the estimated useful lives of the assets. The rates used are as follows:

Building	5%
Furniture and fixtures including capitalized equipment leases and warehouse equipment	10%–20%
Automobiles and trucks	33-1/3%
Leasehold improvements	Lesser of life of lease or useful life of improvement

Pensions

The Company funds currently the costs of its noncontributory pension plans, which cover eligible employees.

Unearned Service Contract Revenue

Payments received from customers for service contracts are deferred and amortized into income over the terms of the respective contracts, which generally do not exceed five years. Service costs relating to the service contracts are charged to operations as incurred.

Income Taxes

The Company files a consolidated federal income tax return with its subsidiaries.

Investment tax credits are accounted for as a reduction of income tax expense in the year in which such credits are allowable for income tax purposes. Deferred income taxes are provided for timing differences between financial and tax reporting primarily with respect to the reporting of unearned service contract revenue and deferred compensation in connection with the granting of nonqualified stock options.

Pre-Opening Costs

Costs incurred in connection with the opening of new stores are expensed as incurred.

Earnings per Share

Earnings per share were computed by dividing net income by the weighted average number of shares of outstanding common stock, after giving retroactive effect to the two for one stock split effected in the form of a dividend approved by the stockholders on July 16, 1985.

3—Property, Plant and Equipment

Property, plant and equipment consist of:

	March 2, 1986	March 3, 1985
Land	$ 925	$ 715
Building	765	
Office, warehouse and other equipment	2,650	1,431
Furniture and fixtures	1,556	759
Leasehold improvements	4,198	2,668
	10,094	5,573
Less accumulated depreciation and amortization	2,922	1,877
	$ 7,172	$3,696

4—Taxes

Income tax expense consists of:

	Year Ended March 2, 1986	Nine Months Ended March 3, 1985	Year Ended May 31, 1984
Current:			
Federal	$12,665	$5,555	$3,287
State and local	4,125	1,635	915
Deferred	(3,522)	(456)	
	$13,268	$6,734	$4,202

Reconciliations between actual tax expense and the amount computed by applying the statutory U.S. federal income tax rate to income taxes are as follows:

	Year Ended March 2, 1986		Nine Months Ended March 3, 1985		Year Ended May 31, 1984	
	Amount	% of Pre-Tax Earnings	Amount	% of Pre-Tax Earnings	Amount	% of Pre-Tax Earnings
Computed expected tax expense	$12,196	46.0%	$5,779	46.0%	$3,669	46.0%
State and local taxes, net of federal income tax benefit	2,228	8.4	883	7.0	494	6.2
Investment and job tax credits	(300)	(1.2)	(75)	(.6)	(15)	(.2)
Reversal of tax reserves no longer required	(725)	(2.7)				
Other	(131)	(.5)	147	1.2	54	.6
	$13,268	50.0%	$6,734	53.6%	$4,202	52.6%

Deferred income tax expense for 1986 and 1985 results primarily from timing differences between financial reporting and tax purposes with respect to unearned service contract revenue and deferred compensation on nonqualified stock options.

5—Pension Plans

Prior to May 31, 1984, the Company maintained a money purchase pension plan covering substantially all employees. Pursuant to the plan, the Company contributed a specified percentage (25%) of covered compensation to the plan for eligible employees (as defined in the plan) and a profit sharing plan as described below.

On May 17, 1984, the Board of Directors adopted a resolution terminating the money purchase pension plan effective May 31, 1984. Such termination resulted in all participants becoming fully vested in their account balances to the extent the contributions made to their accounts did not exceed the maximum amount allowable under the plan. The Board of Directors also authorized the adoption of a new profit sharing plan effective June 1, 1984. Pursuant to the profit sharing plan, the Company will make annual contributions, out of its current or accumulated earnings or profits, up to a maximum of 15% of covered compensation, as defined in such plan, of all employees who meet certain eligibility requirements.

The aggregate pension expense for the year ended March 2, 1986 and the nine months ended March 3, 1985 was $800,000 and $600,000, respectively.

The Company was not required to make a contribution to the money purchase pension plan for the fiscal year ended May 31, 1984 because required contributions were offset by employee forfeitures in the amount of approximately $2,000,000 which occurred during the years 1980 through 1983. As a result of the funding status of the defined benefit pension plan, the Company was not required to make any pension contribution to that plan for the fiscal year ended May 31, 1984. Accordingly, no provision for pension expense has been made in the accompanying financial statements for the year ended May 31, 1984.

6—Leases and Other Commitments

Rent expense (including amounts paid in respect of maintenance, real estate taxes and other charges) for the year ended March 2, 1986 amounted to $4,554,000, for the nine months ended March 3, 1985 amounted to $1,652,000, and for the year ended May 31, 1984 amounted to $1,857,000.

At March 2, 1986, the Company was obligated under leases with initial terms of more than one year covering certain real property. The aggregate minimum fixed rentals required under these leases (exclusive of renewal options) are approximately as follows:

Year Ending March 2,	Aggregate Minimum Rental Commitment
1987	$ 5,505
1988	5,681
1989	5,686
1990	5,814
1991	5,685
Thereafter through 2000	50,122
	$78,493

Rent expense included $185,000 for the year ended March 2, 1986, $132,000 for the nine months ended March 3, 1985 and $363,000 for the year ended May 31, 1984 for rentals paid to corporations controlled by Eddie Antar and Sam Antar or a corporation wholly owned by them.

At March 2, 1986, letters of credit approximating $4,500,000 were outstanding.

Pursuant to certain license agreements, the Company subleases the record departments at all of its store locations to a corporation (Benel Distributors, Ltd.) wholly owned by Ben Kuszer, the brother-in-law of Eddie Antar, and Mr. Kuszer's wife. Other income includes $741,000 for the year ended March 2, 1986, $382,000 for the nine months ended March 3, 1985 and $347,000 for the year ended May 31, 1984 in connection with these agreements.

7—Long-Term Debt

Long-term debt consists of the following:

	March 2, 1986	March 3, 1985
Series A Economic Development Bonds, payable in quarterly installments of $51,667 beginning January 1, 1986 (a)	$6,148	$6,200
Series B Economic Development Bonds, payable in monthly installments of $19,048 beginning August 1, 1985 (a)	1,448	1,600
Notes payable in connection with purchase of lease rights, payable in monthly installments of $10,000 decreasing to $6,500, commencing December 1, 1985	660	
Other	1,699	248
	9,955	8,048
Less current maturities of long-term debt	2,254	423
	$7,701	$7,625

(a) On April 11, 1984, the Company entered into agreements to purchase approximately 11 acres of land in Edison, New Jersey and to have a builder construct the Company's new corporate headquarters on such land. The agreements were conditioned, among other things, upon the Company receiving from the New Jersey Economic Development Authority (the "Authority") approval for the issuance of economic development bonds to finance such acquisition and construction as well as certain related costs.

On December 21, 1984, the Company borrowed from the Authority the aggregate amount of $7,800,000 in order to finance the acquisition or construction of the land, the new facility and certain related machinery and equipment. The proceeds for such loan were provided pursuant to the issuance by the Authority of $6,200,000 aggregate principal amount of its Series A Economic Development Bonds (Crazy Eddie, Inc.—1984 Project) (the "Series A Bonds") and $1,600,000 aggregate principal amount of its Series B Economic Development Bonds (Crazy Eddie, Inc.—1984 Project) (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds"). Pursuant to a loan agreement between the Authority and the Company, the Company is obligated to make principal and interest payments in respect of the loan in amounts sufficient to pay the amounts of principal and interest due from time to time on the Bonds. The Bonds bear interest at a rate equal to 75% of the rate of interest announced from time to time by Midlantic National Bank as its prime rate, but such rate may in no event exceed 14% or be less than 7-1/2% per annum. Interest on the Bonds is payable monthly beginning January 1, 1985.

As security for repayment of the Bonds and the performance by the Company of its obligations under the loan agreement with the Authority, the Company has granted to the Authority a first mortgage lien on the new facility and a security interest in, among other things, all leases that are entered into by the Company with any tenant of the facility (including all rents payable to the Company thereunder).

Restricted cash represents monies reserved for the construction of the new corporate warehouse.

Aggregate annual maturities of the long-term debt outstanding at March 2, 1986 for each of the next five fiscal years are as follows:

Year Ending March 2,	Aggregate Annual Maturity
1987	$2,254
1988	621
1989	566
1990	513
1991	513

8—Stock Option Plan

On August 28, 1984, the Company adopted the Crazy Eddie, Inc. 1984 Stock Option Plan, which provides for the issuance of nonqualified and incentive stock options. The Company has reserved 500,000 shares of common stock for issuance to key employees under the plan.

Changes in the Stock Option Plan were as follows:

	Number of Shares		
	Authorized	Granted	Available
Balance, August 28, 1984	500		500
Granted		264	(264)
Balance, March 3, 1985	500	264	236
Granted		211	(211)
Exercised	(117)	(117)	
Balance, March 2, 1986	383	358	25

The exercise price of any incentive stock option shall not be less than the fair market value of the shares subject to the option on the date of grant. The exercise price of any nonqualified stock option shall not be less than 85% of the fair market value of the shares subject to the option on the date of grant. The term of each option and the manner in which it may be exercised will be determined by a Committee of the Board of Directors, subject to the requirement that no option may be exercisable more than 10 years after the date of grant.

During the year ended March 2, 1986, 22,000 incentive stock options were granted at $11.63 per share and 188,750 nonqualified stock options were granted at $9.88 per share. Options subject to either of these grants expire October 7, 1995. During the period ended March 3, 1985, 264,200 nonqualified options were granted at $8.29 per share which expire September 21, 1994.

9—Stockholders' Equity

On September 20, 1984, the Company issued 3,400,000 shares of common stock in connection with its initial public offering.

On March 20, 1985, the Company issued an additional 400,000 shares of common stock to the public. Subsequent to March 2, 1986, the Company sold 1,495,000 shares of common stock (includes over-allotment option) and received net proceeds of approximately $37,000,000.

In addition, in connection with the initial public offering, the managing underwriter purchased warrants to acquire an aggregate of 150,000 shares of common stock at a price of $4.80 per share for $.50 each. The warrants become exercisable on September 20, 1985 and expire on September 20, 1989. Through May 1, 1986, the underwriters exercised 103,122 shares pursuant to its warrants, of which 88,621 shares were exercised as of March 2, 1986.

The foregoing information has been adjusted for a 2 for 1 stock split effected in the form of a dividend on July 31, 1985.

In connection with the exercise of nonqualified stock options, $725,000, representing tax benefits realized by the Company, was credited to additional paid-in capital during the year ended March 2, 1986.

10—Reclassifications

Certain items appearing in the 1984 financial statements have been reclassified to correspond with the current presentation. The reclassifications primarily relate to the presentation of cash surrender value loans and unearned service contract revenue. There was no effect on net income or stockholders' equity as a result of these reclassifications.

11—Revised Fiscal Year Financial Statements (Unaudited)

The following summarizes the operating results of the Company, restated to correspond on a comparative basis to the Company's new fiscal year:

Consolidated Statement of Operations (Unaudited)

	Twelve Months Ended		
	March 2, 1986	March 3, 1985	February 29, 1984
Net sales	**$262,268**	$167,147	$134,347
Cost of goods sold	**194,371**	127,619	105,313
Gross profit	**67,897**	39,528	29,034
Selling, general and administrative expense	**42,975**	26,431	22,056
	24,922	13,097	6,978
Other income	**3,210**	1,418	692
Interest expense	**(820)**	(572)	(461)
Income before pension contribution and income taxes	**27,312**	13,943	7,209
Pension contribution	**800**	600	627
Income before income taxes	**26,512**	13,343	6,582
Income taxes	**13,268**	6,976	3,630
Net income	**$ 13,244**	$ 6,367	$ 2,952
Net income per share	**$.96**	$.55	$.30
Weighted average number of shares outstanding	**13,832**	11,592	10,000

Consolidated Statement of Changes in Financial Position (Unaudited)

	Twelve Months Ended		
	March 2, 1986	March 3, 1985	February 29, 1984
Working capital provided from:			
Net income	**$13,244**	$ 6,367	$ 2,952
Add charges not affecting working capital:			
Depreciation and amortization	**1,044**	532	471
Loss on disposal of equipment	**506**	37	
Working capital provided from operations	**14,794**	6,936	3,423
Issuance of common stock, less issuance costs	**5,516**	11,808	
Increase in long-term debt	**700**	8,236	
Reduction in advances to affiliates		8,562	4,375
Decrease in restricted cash	**3,702**		
Increase in unearned service contract revenue	**1,194**	332	49
Insurance proceeds		14	
Total working capital provided	**25,906**	35,888	7,847
Working capital used for:			
Increase in restricted cash		7,058	
Acquisition of property, plant and equipment	**4,986**	2,491	546
Advances and sales to affiliates, net		2,901	8,895
Construction in process	**5,099**	1,154	
Reduction in long-term debt	**624**	671	209
Increase in other assets	**4,181**	4	294
Deemed dividend			500
Total working capital used	**14,890**	14,279	10,444
Increase (decrease) in working capital	**$11,016**	$21,609	($ 2,597)
Changes in working capital consisted of:			
Increase (decrease) in current assets:			
Cash and short-term investments	**$17,863**	$21,365	($ 424)
Due from American Express Co.	**371**	818	423
Merchandise inventories	**33,321**	4,579	3,902
Prepaid expenses	**853**	(155)	573
	52,408	26,607	4,474
Increase (decrease) in current liabilities:			
Loans payable - officers and other		(2,509)	(19)
Current maturities of long-term debt	**1,831**	(810)	1,101
Accounts payable	**28,645**	4,893	4,443
Unearned service contract revenue	**2,523**	465	115
Accrued expenses	**8,393**	2,959	1,431
	41,392	4,998	7,071
Increase (decrease) in working capital	**$11,016**	$21,609	($ 2,597)

12—Quarterly Financial Data (Unaudited)

	Quarter Ended June 2, 1985	September 1, 1985	December 1, 1985	March 2, 1986	Total
Year ended March 2, 1986:					
Net sales	$45,843	$52,908	$63,750	$99,767	$262,268
Gross profit	10,361	12,762	15,172	29,602	67,897
Net income	1,141	2,389	2,578	7,136	13,244
Earnings per share (b)	$.08	$.17	$.19	$.51	$.96

	Quarter Ended August 31, 1984	November 30, 1984	March 3, 1985	Total
Nine months ended March 31, 1985 (a):				
Net sales	$32,344	$38,684	$65,291	$136,319
Gross profit	7,519	8,817	16,562	32,898
Net income	1,141	1,380	3,308	5,829
Earnings per share (b)	$.11	$.11	$.25	$.48

(a) "Fiscal 1985 includes only three quarters because of the change in fiscal year.
(b) "The sum of the earnings per share for the quarters will not equal the total because of weighting and rounding.

Consumer Electronics... Bright, Long-Term Prospects

Power...
The word brings to mind many images. Among the clearest are electricity and high technology. In consumer electronics, power connotes the strong, constant current running through the most sophisticated equipment for the home. It also represents the tremendous marketing activity that's sparked a worldwide preoccupation with home entertainment.

Over the past 12 months, consumer electronics has experienced its greatest gains in consumer acceptance ever. There is no other group of products that fulfills the country's enthusiasm for an upgraded lifestyle like audio/video hardware and software.

A look at industry statistics shows a bright future with new products rolling off production lines around the world. According to figures from the Electronics Industry Association (EIA), the industry's already phenomenal growth rate is just a beginning. Over the past five years, total wholesale shipments from manufacturers to retailers have doubled, forecasted to reach $26.1 billion in 1986 and $27.7 billion in 1987. The 65-year-old industry last year captured approximately $35 billion of America's discretionary income spent annually at retail. That figure is expected to more than double by 1990, according to a 1985 National Retail Merchants Association (NRMA) report. The NRMA puts the industry's annual growth rate at about 14 percent, the largest of any consumer products sector.

CONSUMER ELECTRONICS PRODUCTS

	Total Factory Sales in Dollars *(Millions)*
1981	$12,500
1982	16,700
1983	20,500
1984	23,000
1985	24,400
1986 (proj.)	26,100

Source: Electronics Industries Association, Washington, D C
June, 1986

Baby boomers, the prime users of consumer electronics, are now beginning to turn 40. While they enjoy a high percentage of discretionary income, they are family heads and they seek prime value for their valued leisure time. Consumer electronics offers this on an ongoing basis through constantly lower retail prices on "demand" items. It's this end-user who's greatly responsible for the snowballing growth rate in per capita sales of home electronics from $97 in 1980 to a projected $232 in 1990, as reported by the NRMA.

Statistics indicate what retailers acknowledge: That the perception of value by the consumer has never been greater toward home electronics. According to the EIA's latest annual review: "The Consumer Price Index dramatically shows the remarkable value offered to the public. Whereas the index for all products listed in the Bureau of Labor Statistics' Consumer Price Index as of December 31, 1985, had increased to 322.2 versus 300 in 1983, the index for TV sets actually declined to 88.6 from 1984's 96.0 while audio equipment remained unchanged at 105.2. There is no doubt the mass consumer market will continue to remain loyal to these products as long as such tremendous value exists.

Unabated Growth In Video

Of all product categories, the progress in video is most impressive. And the expansion of the video market is expected to continue unabated. A recently-released EIA study of video hardware sales and market trends, based on a survey of 10,000 households, puts VCR penetration at 35 percent nationwide. Just as important is the buoyant consumer attitude: 95 percent of respondents said they would replace their existing VCR if it failed "beyond repair," and therefore, "appear to regard their VCRs as necessities."

The biggest video markets are, not surprisingly, in the Northeast, where 18 percent of U.S. citizens reside and where 17 percent of the househholds have VCRs, according to EIA findings. Which households are the most likely to buy? Those with annual income of at least $25,000 and two or more family members; the affluent city dweller, the suburbanite—the prime customers of leading consumer electronics retail chains.

TOTAL VIDEOCASSETTE RECORDERS

	Total Sales To Dealers in Units *(Thousands)*	Total Factory Sales in Dollars *(Millions)*	Average Value *(Dollars per unit)*
1981	1,361	$1,127	$828
1982	2,035	1,303	640
1983	4,091	2,162	528
1984	7,616	3,585	471
1985	11,853	4,738	400
1986 (proj.)	13,200	5,330	404
1987 (est.)	14,000	5,840	417

Source: Electronics Industries Association, Washington, D.C
June, 1986

Industry analysts perceive the VCR as presently in its growth phase. According to a recent Wilkofsky Gruen Associates study, the majority of sales today are to first-time owners, and annual shipments will range between 12 and 16 million units through 1989. Then, like a rocket, the study outlines the booster phase, with sales to previous owners overtaking sales to first-timers, and the percentage of multi-VCR households hitting 40 percent by 1995. All forecasts point to the VCR growing at a faster rate than the color television business over the next ten years, whereas VCR sales have mirrored color TV in year-to-year sales increases during its first decade in the market. While VCR decks will continue to become more affordable, there will remain higher-ticket prospects in the camcorder arena as new, feature-laden products redefine the role of making motion pictures at home. As baby boomers enter their prime earning years, births will continue to rise at levels rivaling the 1950s. What a market for camcorders!

Nationally, some 37 percent of households plan to buy VCRs this year. This includes 41 percent of nonowners and 32 percent of current owners, revealing a significant market ready for a second unit. The multi-TV family is now becoming the multi-VCR family. Already, 11 percent of owner households have two units. And of those planning a new purchase, 27 percent want upgrade models commanding higher retail prices. Amazingly, such responses are gleaned from a national VCR community where 93 percent of VCRs bought five years ago are still in operation!

The VCR revolution has spurred sales of high-end color television sets as well. Television sales to dealers climbed nearly 1 million units to just short of 17 million in 1985, says the EIA, which projects sales up 17.3 million sets this and 17.5 million next year. The rise in projection televison sales was also dramatic, to 266,000 units in 1985 from 195,000 the previous year. 1986 projection TV sales are estimated at 320,000 units with 360,000 units forecast for '87. Taking into account that projection sets commonly sell for over $2,500 retail, the growing tendency toward replacing existing sets with better and more expensive models is clear.

Color TV with built-in stereo capability (MTS) is another bright spot. Sales in '85 grew to 1.5 million units, up from 240,000 in 1984. 1986 projected sales total 3 million units and 5 million units the following year.

COLOR TELEVISION RECEIVERS

(Excl. Projection Television)

	Total Sales To Dealers in Units *(Thousands)*	Total Factory Sales in Dollars *(Millions)*	Average Value *(Dollars per unit)*
1981	11,157	$4,349	$390
1982	11,366	4,253	374
1983	13,986	5,002	358
1984	16,083	5,538	343
1985	16,996	5,562	327
1986 (proj.) ..	17,300	5,625	325
1987 (est.)	17,500	5,690	325

Source: Electronics Industries Association, Washington, D.C. June, 1986

The growth of related video industries such as blank tape, prerecorded video movies for rental and sale, as well as accessories, are snowballing right along with the hardware growth. An especially cash-rich category is prerecorded video, where leading industry trade publications foresee a 29 percent jump in national revenue to $1.5 billion in 1986, and a 62 percent jump in movies for sale to $650 million this year. That's a 134 percent leap in for-sale titles. Specialty chains, with their ability to plant the seed in more consumers buying hardware, are regarded by manufacturers of related video products as the most likely to capture the blooming aftermarkets. These same retailers can take advantage of unique, cross-merchandising opportunities between video hardware and software.

Audio On The Move

From such phenomenal numbers, one might conclude that consumers are interested primarily in video. On the contrary: They're buying across the entire spectrum of consumer electronics categories. Examples are found in home audio, where just as the VCR has catapulted total video sales, the compact disc player is spurring the high fidelity business into a new era of growth. Sales of CD players, including the breakthrough portable models, skyrocketed to nearly 1 million players in 1985, an increase of over 700,000 units from 1984 and far above industry projections, according to the EIA. For several months last year, supply was way below retail demand. Today, with name brand CD players selling as low as $120 from market-leading retailers, adequate supply and rapid sell-through are moving hand in hand. EIA predicts sales of 1.8 million compact disc players this year and another 28% gain in units to 2.3 million in '87.

TOTAL AUDIO COMPACT & COMPONENT SYSTEMS

	Total Sales To Dealers in Units *(Thousands)*	Total Factory Sales in Dollars *(Millions)*	Average Value *(Dollars per unit)*
1981	2,882	$ 720	$250
1982	2,640	573	217
1983	3,058	630	206
1984	3,167	976	303
1985	4,866	1,372	288
1986 (proj.) ...	5,200	1,595	307
1987 (est.)	5,400	1,680	310

Source: Electronics Industries Association, Washington, D.C. June, 1986

Compact discs (software) are stocked in the record and tape sections of those specialty retail chains riding the crest of this newest wave. As in video, it is the chainstore dealers making a strong statement in both hardware and software that's profiting the most from the CD experience. Disc prices were edging down in 1985 with the low end commonly at $11.99 and the high over $15 although a continuing shortage of disc titles is currently reflected in somewhat higher retail prices. Disc sales doubled last year to over 10 million units. Over 6,000 music titles are currently available in the compact disc format. Many new titles are being released simultaneously on compact disc, conventional vinyl disc and cassette tape.

The digital age is also bringing a renewed interest in more powerful, replacement audio components. Sales of home audio are gradually rising, and mass market suppliers, like no time since the audio boom of the 1970s, are presently introducing new lines starring individual amplifiers, tuners, receivers and speaker systems all benefitting from technological advances. Retailers who can merchandise a full complement of audio components around CD players can cash in on the surge in upgrading.

In addition, the integration of compact disc players into one-brand audio rack systems has boosted profitability in that high-ticket, high-volume category.

Rack systems where amplifier, broadcast tuner, turntable, cassette deck and speakers are grouped together in a piece of knockdown furniture represented an expanded market last year. Unit sales reached 2.3 million units, up from 1.5 million in 1984. The EIA predicts sales of these units to reach 2.7 million this year, and 2.8 million the following year. Many of these systems are selling at over $750 retail, thanks to the recent introduction of CD and infrared remote control. Remotes are a recent and important development, furthering the appeal of systems among average customers looking for convenience and a wide variety of performance and programming features.

Into The Future

In Japan, where the bulk of quality consumer electronics products are manufactured, manufacturers are already planning for the products and services their companies will be making and marketing in the 1990's. The early part of the year 2,000 is also already worked into their corporate schedules. It's just

COMPACT DISC PLAYERS

	Total Sales To Dealers in Units *(Thousands)*	Total Factory Sales in Dollars *(Millions)*	Average Value *(Dollars per unit)*
1983	35	$ 15	$429
1984	208	68	329
1985	966	217	225
1986 (proj.) ...	1,800	360	200
1987 (est.)	2,300	435	190

Source: Electronics Industries Association, Washington, D.C. June, 1986 another example that the business of merchandising home entertainment will continue as the leading leisure time industry.

The products of this industry of the future, however, are seemingly just around the corner. By the end of this year, digital audio tape (DAT) players will be coming to market from several audio manufacturers. DAT will enable consumers to record music from digital audio discs digitally onto a new tape format. Gone is the process of converting the digital signal to analog during the playback cycle on a conventional cassette deck. Enter the purest, most true-to-life sound imaginable, rivaling that previously attained only in the professional recording studio and representing one of the most significant breakthroughs in audio since Edison's 1877 discovery of phonograph technology.

Another emerging sector is the interactive home security system, already available from a few suppliers and enabling consumers to monitor and control household appliances and electronics, climate, lighting, smoke/fire and security systems. It's no coincidence that such computerized systems, beautiful in their simplicity, remind one of McLuhan's "Global Village." What the author foretold decades ago is beginning to come around as reality.

That's but a glimpse of the future mass market. For now, retailers are more than content with concentrating on today's mass market, located in urban centers near monied suburbs. Living here is the typical profile, everyday electronics user. This individual has integrated electronics into his or her everyday routine: Morning news from the kitchen television; music on the drive to work from the custom car stereo; the walkabout radio for the jog around the park at lunchtime and the videocassette rental for the movie of one's choice on the VCR in the evening. Part of a two-income family, the consumer electronics enthusiast is interested in scheduling entertainment to fit an active lifestyle.

It all adds up to one, inescapable conclusion: Consumer electronics retailers located in urban and suburban markets are in the right place at the right time to profit from ever-growing interest in home entertainment, as exhibited by the most affluent consumers.

ESTIMATED HOUSEHOLD PENETRATION BY PRODUCT CATEGORY
(As of January, 1986)

Total TV	98%
Color TV	92%
Color TV with MTS	3%
Black & White TV	60%
Projection TV	3%
VCR	35%
Camcorders	1%
Home Computers	16%
Audio Systems	88%
—Compact	52%
—Component	40%
Compact Disc Players	3%
Telephone Answering Devices	12%
Cordless Telephones	14%
Home Radios	98%

Source: Electronics Industries Association, Washington, D.C. June, 1986

Store Locations

	Year Opened	Gross Space (sq. ft.)	Approximate Selling Space (sq. ft.)
405 Ave. of the Americas New York, New York 10011	**1975**	7,111	1,870
300 East Fordham Road[1] Bronx, New York 10458	**1976**	13,650	5,900
2067 Coney Island Avenue Brooklyn, New York 11229	**1977**	16,000	6,864
809 Route 17 Paramus, New Jersey 07652	**1977**	13,735	5,779
269 Route 18 East Brunswick, New Jersey 08816	**1978**	27,913	8,423
2155 Route 22 West Union, New Jersey 07083	**1979**	8,400	4,400
393 North Central Avenue Hartsdale, New York 10530	**1979**	15,658	6,692
401 Old Country Road Carle Place, New York 11514	**1980**	20,231	7,871
212 East 57th Street New York, New York 10022	**1981**	12,208	5,316
420-440 Westport Avenue Norwalk, Connecticut 06851	**1983**	5,398	3,493
Route 46 West (& Riverside Drive) Totowa, New Jersey 07512	**1983**	7,140	3,871
350 Jericho Turnpike Syosset, New York 11791	**1984**	12,500	3,607
165 East 86th Street New York, New York 10028	**1984**	9,870	2,650
1010 Smithtown Bypass Nesconset, New York 11767	**1984**	9,992	4,398
770 Route 1 (30 Jensen Street) Woodbridge, New Jersey 07095	**1984**	8,576	2,920
89-22 Queens Boulevard Elmhurst, New York 11373	**1985**	9,531	3,032
175 Rockland Center (Route 59) Nanuet, New York 10954	**1985**	12,046	4,950
1000 Sunrise Highway Massapequa, New York 11758	**1985**	9,800	3,240
449 West Mount Pleasant Avenue Livingston, New Jersey 07039	**1985**	7,750	2,616
116 Boston Post Road Orange, Connecticut 06477	**1985**	7,097	3,566
25 West 45th Street New York, New York 10036	**1985**	5,700	1,955
150 Broadway New York, New York 10038	**1985**	12,150	4,625
37-08 Main Street Flushing, New York 11354	**1985**	16,000	3,500
999 Third Avenue[2] New York, New York 10022	**1986**	5,550	1,591
2186 Broadway[3] New York, New York 10024	**1986**	13,650	3,672
Total		287,656	106,801

(1) Closed April 27, 1986
(2) Opened April 1, 1986
(3) Opened May 22, 1986

Future Stores		
	Edison, NJ	Pleasantville, NJ (Atlantic City)
	Princeton, NJ	Staten Island, NY
	Toms River, NJ	Poughkeepsie, NY
	Eatontown, NJ	Valley Stream, NY
	Stamford, CT	Hamden, CT
	Farmington, CT (West Hartford)	Cherry Hill, NJ

Corporate Officers and Directors

Officers

Eddie Antar
Chairman of the Board
President, Chief Executive Officer

Sam Antar
Executive Vice President

Mitchell Antar
Executive Vice President
Marketing

David Pardo
Executive Vice President
Purchasing

Morton Gindi
Vice President
Operations

David V. Panoff
Vice President
Consumer Service Operations

Eddy Antar
Treasurer

Sam E. Antar, CPA
Controller

Solomon E. Antar
Secretary and General Counsel

Board of Directors

Eddie Antar
Chairman of the Board
President, Chief Executive Officer

Sam Antar
Executive Vice President

Mitchell Antar
Executive Vice President
Marketing

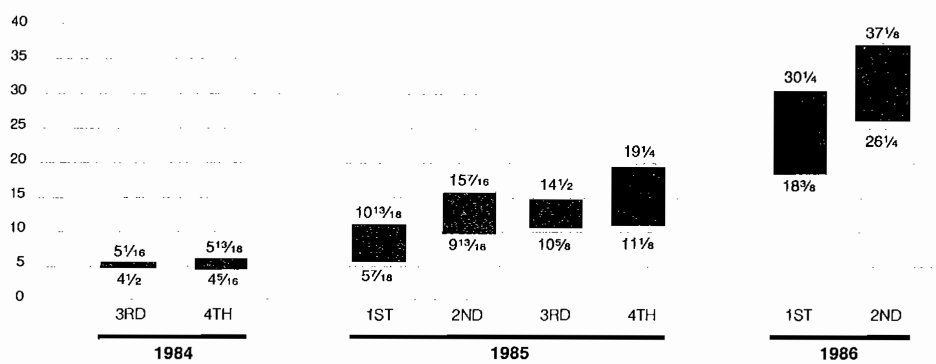
Eddy Antar
Treasurer

James H. Scott, Jr.*
Professor of Finance
Columbia University
Graduate School of Business

Carl G. Zimel
Senior Vice President
Alaska National Bank of the North
Fairbanks, Alaska

* Audit Committee

STOCK PRICES
(BY QUARTER)



From completion of the Company's initial public offering in September 1984, the Common Stock of the Company was traded in the over-the-counter market by NASDAQ under the symbol CRZY. Effective February 12, 1985, Crazy Eddie was included in the NASDAQ National Market System. Prices shown prior to that date are bid prices; after February 12, 1985, high and low prices are shown.

As of May 28, 1986, there were 725 holders of record of the Common Stock, excluding holders whose stock is held in nominee or street name by brokers.

The Company has never declared or paid any cash dividends on its Common Stock. The present policy of the Board of Directors is to retain earnings in order to provide funds for the expansion and development of the Company's business. Accordingly, the Company does not anticipate paying any cash dividends to the holders of the Common Stock in the foreseeable future.

Shareholder Information

Headquarters

Annual Meeting of Shareholders

Availability of Form 10-K

Special Counsel

Independent Auditors

Investor Relations Counsel

Transfer Agent and Registrar

Stock Exchange Listing

CRAZY EDDIE®

Crazy Eddie, Inc.
2845 Coney Island Avenue
Brooklyn NY 11235