CRAZY EDDIE® INC.

ANNUAL REPORT 1988

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Victor H. Palmieri
Chairman of the Board

Elias Zinn
President and Chief Executive Officer

Michael Wilcoxson
Executive Vice President – Operations

John P. Harbin
Private Consultant
Former Chairman of the Board
and Chief Executive Officer
The Halliburton Company

John A. Koskinen
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The Palmieri Company

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The German Marshall Fund
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Peter A. Martosella, Jr.
Senior Vice President and Managing Director
The Palmieri Company

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Rex A. Sebastian
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Dresser Industries, Inc.

John V. Thornton
Vice-Chairman of the Board
The Consolidated Edison Company of New York

Officers

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Chairman of the Board

Elias Zinn
President and Chief Executive Officer

Michael Wilcoxson
Executive Vice President – Operations

Frank S. Fulno, Jr.
Executive Vice President – Finance,
Treasurer and Chief Financial Officer

T. David Mullen
Vice President, General Counsel
and Secretary

To Our Stockholders:

This is the first annual report to stockholders since your new Board of Directors and management assumed control of Crazy Eddie, Inc. on November 6, 1987, after a successful proxy contest.

Immediately after taking office, we launched an extensive review of the Company's assets and operations, including a comprehensive physical inventory in all 42 stores and in all warehouses. This review disclosed a $65 million book shortfall in merchandise inventory on hand, substantial understatements of accounts payable, serious weaknesses in the Company's recordkeeping and operating procedures, a large-scale breakdown in vendor relationships and a cash crisis. Operating losses, together with additional prior period adjustments revealed by the year-end audit, resulted in a net loss of $109.1 million on sales of $315.5 million for the 1988 fiscal year, leaving the Company's balance sheet with a negative net worth.

As noted below, lawsuits have been instituted against the Company, its former officers and directors, and its former auditors. In addition, the Securities and Exchange Commission and the United States Attorney's Office are conducting separate investigations concerning the Company and certain members of former management of the Company.

Your new management has made intensive efforts to correct the problems it inherited. We have substantially reduced overhead and have implemented new accounting and inventory controls, including "point of sale" monitoring at each store. We have restored and strengthened relationships with vendors and have obtained a new bank line of credit. We have instituted a program that ties compensation to performance, designed not only to increase sales, but to increase profits and improve service. In addition, we have initiated a business planning process.

The most pressing problem in November 1987 was the lack of working capital available to the Company following the withdrawal of bank lines of credit by former lenders. The need for operating cash and merchandise for the Christmas season was urgent. New management was able to obtain a short-term bank line of credit to satisfy all immediate cash needs at that time, and that line has since been extended to a $21.5 million revolving line of credit due June 30, 1989. In addition, Entertainment Marketing, Incorporated has extended to the Company an $11 million line of credit for the purchase of merchandise inventory. The Company applied for and received $30.1 million in Federal and State tax refunds and paid substantially all uncontested past-due account balances existing as of November 6, 1987.

A major positive step in restructuring the Company's balance sheet was the recently announced successful completion of the Company's offer to exchange new convertible subordinated debentures for its outstanding $80,975,000 principal amount of 6% convertible subordinated debentures due 2011. Holders of approximately 96% of the principal amount of outstanding debentures accepted the exchange. As a result, the Company recognized an increase in stockholders' equity of approximately $47 million, which restored a positive net worth to its balance sheet. The overwhelming acceptance of the exchange offer will greatly assist the Company's recovery. With the Company's now-positive net worth, we expect that Crazy Eddie's relations with its vendors, lenders and other creditors will be further strengthened, insuring an ample quantity and good variety of merchandise inventory for the prime selling season just ahead.

We are proceeding with the planned openings later this year of previously committed stores in Farmington and Danbury, Connecticut, and the relocation of a third store to a better location in Hamden, Connecticut. The openings of two remaining stores committed to by former management have been temporarily or permanently cancelled as a result of our site and marketing analyses. We are remodeling our existing Metropolitan New York stores to make them more attractive and efficient places to shop. We will continue to study opportunities for growth in the Company's market areas, which include Pennsylvania, Connecticut, and New Jersey, as well as New York.

Another important step in restructuring the Company is the proposed sale of its headquarters office and warehouse facility in

Edison, New Jersey. A proposed transaction presently being negotiated includes a lease-back of approximately 26,000 square feet of office space presently occupied by the Company as its corporate headquarters. If this transaction closes, which we expect could happen by late fall, it will enable the Company to reduce its bank debt, provide cash for operations and further reduce overhead. The Company's principal warehouse facility is located in East Brunswick, occupying approximately 315,000 square feet of leased warehouse space; we believe this is sufficient not only to meet current needs but to allow for any additional store expansion as well.

In addition to the numerous and substantive problems new management inherited on November 6, 1987, the Company has been facing a consumer electronics industry in its second full year of flat sales, and there is no immediate improvement in sight. New products in consumer electronics, such as CD recorders and high-definition television, offer exciting possibilities for the future, but we believe these are at least 24 months from coming to market. Crazy Eddie will continue to merchandise our industry's newest products at their earliest introduction.

A final word should be added about pending investigations and litigation. The Company has entered into a settlement agreement with the plaintiffs in two securityholders' class action lawsuits brought against the Company, former officers and directors, including the former chairman, Eddie Antar, the Company's former auditors and four underwriters. The settlement provides for the Company to contribute $100,000 of the costs and to cooperate with plaintiffs in prosecuting these actions against former management. Any recovery is to be divided 80% to the securityholders and 20% to the Company. In addition, the securityholders are to receive 2,750,000 shares of Crazy Eddie, Inc. common stock. The settlement is subject to the satisfaction of a number of conditions, including certification of the class and court approval. Stockholders need do nothing at this time to participate in the class action litigation. Once the court certifies the class of stockholders entitled to participate, you will be notified by the Company.

In addition, the separate investigations by the United States Attorney's Office and the Securities and Exchange Commission into possible criminal and Securities Act violations are ongoing. These matters are outlined more fully in the Company's Form 10-K Report for the year ended February 28, 1988 which accompanies this letter. The Company is cooperating with the SEC and United States Attorney in these investigations.

This has been a difficult year for your Company and its new Board of Directors and management. It has survived disclosures of financial and accounting irregularities and mismanagement and lawsuits attributable to former management which threatened its very existence. We have begun the process of redirecting the Company's recovery. It has taken a major financial commitment and the dedicated efforts of our Board of Directors, executive staff, managers and employees to bring us this far; however, considerably more hard work lies ahead. We believe with the results so far to build on, we are now in a better position to achieve our plan objectives.

We ask for the continued support of the stockholders, vendors and customers in our efforts to restore Crazy Eddie, Inc. as the dominant electronics retailer in its market areas.

Respectfully submitted,

Victor H. Palmieri
Chairman of the Board

Elias Zinn
President and Chief Executive Officer

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended
February 28, 1988

Commission file number
0-13761

CRAZY EDDIE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

11-2667288
(I.R.S. Employer Identification No.)

140 Carter Drive, Edison, New Jersey
(Address of principal executive offices)

08817
(Zip Code)

Registrant's telephone number, including area code: **(201) 248-1410**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X **No** ____

The aggregate market value of the voting stock (based upon the closing market price of the Company's Common Stock on the NASDAQ National Market System on May 20, 1988), held by non-affiliates was approximately $38,566,420.

As of May 20, 1988, 30,956,980 shares of Common Stock of the Company were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None

PART I

IN NOVEMBER 1987, THE COMPANY'S STOCKHOLDERS ELECTED A SLATE OF NEW DIRECTORS NOMINATED BY A COMMITTEE LED BY ENTERTAINMENT MARKETING, INCORPORATED ("EMI"), A HOUSTON-BASED COMPUTER PERIPHERALS AND CONSUMER ELECTRONICS DISTRIBUTOR, AND THE OPPENHEIMER-PALMIERI FUND, L.P. (THE "OPPENHEIMER-PALMIERI FUND"), A PRIVATE LIMITED PARTNERSHIP WHICH INVESTS IN COMPANIES WITH UNREALIZED POTENTIAL OR WHICH ARE EXPERIENCING FINANCIAL OR OPERATING DIFFICULTIES. THIS CHANGE IN CONTROL WAS THE RESULT OF A PROXY CONTEST WHICH FOCUSED ON MISMANAGEMENT OF THE COMPANY BY ITS FORMER DIRECTORS AND OFFICERS AND THE DETERIORATION OF ITS OPERATIONS AND FINANCIAL CONDITION.

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 A SUBSTANTIAL UNDERSTATEMENT OF ACCOUNTS PAYABLE.

NEW MANAGEMENT'S REVIEW ALSO REVEALED PROFOUND WEAKNESSES IN THE COMPANY'S RECORD KEEPING AND OPERATING PROCEDURES. THE ABSENCE OF ACCURATE COMPANY RECORDS AND OTHER MATTERS DISCOVERED IN ONGOING INVESTIGATIONS OF THE COMPANY CONDUCTED BY NEW MANAGEMENT, THE SEC AND OTHER REGULATORY AGENCIES HAVE MADE IT IMPRACTICABLE OR IMPOSSIBLE TO DETERMINE IN WHICH OF THE PRIOR PERIODS THE INVENTORY SHORTFALL AND OTHER ADJUSTMENTS TO THE BALANCE SHEET SHOULD HAVE BEEN MADE. IN ADDITION, NEW MANAGEMENT BELIEVES THAT THE AMOUNTS REPORTED BY FORMER MANAGEMENT FOR COSTS OF GOODS SOLD IN THE COMPANY'S STATEMENTS OF OPERATIONS FOR PRIOR PERIODS ARE INACCURATE AND THAT AMOUNTS REPORTED AS RETAIL STORE SALES REVENUES ACTUALLY INCLUDED REVENUES FROM WHOLESALE SALES. CONSEQUENTLY, 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. IT IS ANTICIPATED AT THIS TIME THAT A RESTATEMENT OF ANY OF THE PRIOR PERIOD FINANCIAL STATEMENTS WILL NOT BE POSSIBLE DUE TO INACCURACIES IN, OR LACK OF, AVAILABLE RECORDS TO PERMIT AN ACCURATE RESTATEMENT.

IN NOVEMBER 1987, NEW MANAGEMENT ENGAGED TOUCHE ROSS & CO. ("TOUCHE ROSS") TO REPLACE THE COMPANY'S FORMER INDEPENDENT AUDITORS, PEAT MARWICK MAIN & CO. ("PEAT MARWICK"). THE REPORT OF TOUCHE ROSS ON THE COMPANY'S FINANCIAL STATEMENTS INCLUDED HEREIN FOR THE FISCAL YEAR ENDED FEBRUARY 28, 1988 INCLUDES AN OPINION ON THE BALANCE SHEET ONLY BUT, BECAUSE IT WAS IMPRACTICABLE TO DETERMINE THE EXTENT TO WHICH CERTAIN ADJUSTMENTS TO THE FINANCIAL STATEMENTS FOR FISCAL 1988 RELATE TO PRIOR YEARS, THEY HAVE BEEN UNABLE TO EXPRESS AN OPINION ON THE STATEMENT OF OPERATIONS AND THE STATEMENT OF CHANGES IN FINANCIAL POSITION. EXCEPT FOR THE BALANCE SHEET AT FEBRUARY 28, 1988, THE FINANCIAL STATEMENTS PRESENTED ARE NOT BEING REPORTED UPON IN THIS ANNUAL REPORT ON FORM 10-K. FINANCIAL STATEMENTS FOR THE COMPANY'S FISCAL YEARS ENDED MARCH 1, 1987 AND MARCH 2, 1986 INCLUDED HEREIN ARE TAKEN FROM THE COMPANY'S ANNUAL REPORTS ON FORM 10-K, AS PREVIOUSLY FILED FOR SUCH FISCAL YEARS BY FORMER MANAGEMENT AND AS PREVIOUSLY REPORTED UPON BY PEAT MARWICK. PEAT MARWICK HAS DECLINED TO REISSUE THEIR AUDIT REPORT FOR SUCH PRIOR PERIODS WITHOUT A LETTER OF ASSURANCE FROM

TOUCHE ROSS THAT NOTHING HAS COME TO THE ATTENTION OF TOUCHE ROSS THAT WOULD MAKE THE PRIOR FINANCIAL STATEMENTS MISLEADING. TOUCHE ROSS HAS ADVISED THE COMPANY THAT THEY ARE UNABLE TO GIVE SUCH A LETTER OF ASSURANCE.

ITEM 1. BUSINESS.

General

The Company sells home entertainment and consumer electronic products through a chain of 42 retail stores located in New York, New Jersey, Connecticut and Pennsylvania. All of the Company's stores are operated under the Crazy Eddie name and are located in New York City or within the surrounding 150-mile radius; five of such stores are located in the Philadelphia metropolitan area.

The Company's corporate headquarters is located at 140 Carter Drive, Edison, New Jersey 08817 and its telephone number is 201-248-1410. Purchasing, personnel, accounting, advertising and merchandising management are centralized at the Company's corporate headquarters. The Company's principal distribution center is located in East Brunswick, New Jersey.

Crazy Eddie, Inc., a Delaware corporation, is a holding company which conducts its operations at the retail store level through wholly-owned subsidiaries. Unless the context otherwise requires, references to the "Company" relate to Crazy Eddie, Inc., its subsidiaries and their predecessors.

Products

The Company offers customers a broad range of quality brand name products from manufacturers including Sony, Panasonic, General Electric, Hitachi, Toshiba and Fisher. The Company's products may be grouped as follows:

Television and video product group includes black and white televisions, portable color televisions, console color televisions, monitor televisions, AC/DC powered televisions, rear screen projection televisions, front projection televisions, television stands, component televisions, novelty televisions, portable and stationary video recorders, video cameras, video enhancement devices, lighting systems and tripods.

Audio and audio systems product group includes home speakers, receivers, cassette decks, automatic and manual turntables, amplifiers, tuners, equalizers, signal processing, reverberation units, compact disc players, digital audio players, mini-, midi- and normal-sized pre-packaged audio systems, open reel recorders, mixing boards, electronic musical keyboards, preamplifiers, compact music systems, headphones, microphones, power-amplifiers and integrated amplifiers.

Car stereo product group includes in-dash AM-FM cassette receivers, AM-FM cassette decks, tuners, preamplifiers, speakers, amplifiers, reverberation units, car compact disc players, equalizers, antennas, installation hardware, boosters, car radios, car alarms and car telephones.

Portable and personal electronics product group includes portable radios, AC/DC portable recorders, AC/DC portable radio recorders, telephone answering recorders, portable telephones, standard and designer telephones, automatic telephone dialers, audio, video and computer furniture, home security devices, electronic typewriters, walkman-type radios, calculators, clock radios and micro cassette recorders.

Computers and games product group includes business and home computers, printers, floppy disk drives, data recorders, business and recreational software, computer monitors, electronic video games and software, and game joysticks.

Accessories and tapes product group includes cables, switches, phonograph cartridges and styli, audio and video tapes, storage boxes, blank audio tapes and blank video tapes, floppy disks, audio and video head cleaners, record cleaners, specialty audio records, tonearms, transformers and batteries.

Home office product group includes copiers and facsimile machines.

Miscellaneous items product group includes microwave ovens, air conditioners, electric fans, small home appliances, and other miscellaneous items and extended warranty contracts offered by the Company for most audio, video and computer merchandise sold and for certain other items.

The percentage of sales accounted for during any period by each product group is affected by promotional activities, consumer trends and the development of new products. Management believes, however, that the Company is not dependent on any one product line or on any single vendor or several major vendors, and that competitive sources of supply are presently available for all of the Company's merchandise, although the Company did experience a reduction in the quantity and variety of its merchandise during the peak holiday season of fiscal 1988 due to liquidity problems. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." No vendor accounted for 10% or more of the Company's purchases in the fiscal year ended February 28, 1988, although EMI accounted for a substantial amount of the Company's purchases during the fourth quarter of fiscal 1988. See "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS."

The Company currently subleases space in each of its stores to licensees who operate jewelry and record and tape departments. Prior to cancellation of their license, the Company leased space to Benel Distributors, Ltd. for records and tapes. (See "LEGAL PROCEEDINGS").

Purchasing and Sales Practices

A central purchasing department monitors current sales and inventory on a daily basis. New management has taken steps designed to improve the Company's internal accounting and inventory systems, including the use of "point-of-sale" monitoring of sales and inventory at each store, making available aggregate sales, inventory and margin reports for management on a prompt basis, the generation of store-by-store profitability reports and analyses, and store inventory replenishment based on corporate office analysis of "point-of-sale" data rather than by orders placed by store management. The Company generally purchases inventory directly from vendors on open account. Substantially all inventory purchased by the Company is shipped directly to its central distribution facility located in East Brunswick, New Jersey. Each Crazy Eddie store receives shipments of inventory from the central distribution facility several times a week, enabling each store to maintain substantial inventories of products and to replenish promptly inventories of fast-moving products.

Sales to customers are primarily made on a cash or major credit card basis. The Company is currently negotiating with an independent consumer finance company which would offer on-the-spot financing for qualified customers' purchases and is currently testing this financing arrangement in a limited number of stores.

All products sold in Crazy Eddie stores carry a price protection guaranty pursuant to which the Company (or its licensees in the case of jewelry, records or tapes) will refund the difference between the purchase price and any lower price for the same product that is demonstrated by the customer to be available at any competing store in the same market area during the following 30-day period. In addition, merchandise sold may be exchanged for the same or other products or for store credit within seven days of the sale.

Seasonality

Historically, the Company has reported greater sales during the fourth quarter, which includes the Christmas season, than in other quarters of the fiscal year. The Company's marketing strategy, however, and in particular its regular use of radio, television and newspaper advertising and regular promotional sales throughout the year, such as the Company's Memorial Day sale and "Christmas in August" sale, are intended to reduce the effect of seasonality on the Company's sales and operations.

Servicemarks

The "Crazy Eddie," "Record and Tape Asylums," "Crazy Eddie Record and Tape Asylums," "His Prices Are Insane" and "Blowout Blitz" marks, and the Company's logo, are servicemarks which have been registered with the United States Patent and Trademark Office and are owned by the Company. The "Crazy Eddie" and "His Prices Are Insane" marks, as well as the Company's logo, are an integral part of the Company's advertising and are important to the Company's business; new management is undertaking a review of the registration status of its servicemarks to assure that the Company's continuing rights to such marks are adequately protected.

Competition

The business of the Company is highly competitive in that there are many retailers that sell one or more of the products carried by the Company. The Company competes with department stores, discount stores, catalog showrooms, specialty stores and other retailers. To some extent, the Company also competes with drugstores, supermarkets and others that make incidental sales of consumer electronic products. Some of the Company's competitors are national in scope and have greater financial resources than the Company.

The Company competes on the basis of pricing, product offering and customer service as promoted through mass-media advertising. Most of the Company's advertisements appear on radio and television, although the Company also advertises in New York City and certain local newspapers.

The Company's radio and television advertising has as its theme "Crazy Eddie—His Prices Are Insane!", and its advertisements continue to feature a local radio announcer who has portrayed the Company's "Crazy Eddie" character on radio and television for the past 15 years.

Pricing. All products sold in Crazy Eddie stores carry a 30-day price protection guaranty. Certain of the Company's major competitors have adopted similar pricing and guaranty policies.

Product Offering. The Company offers a broad selection of products and attempts to change the variety and emphasis of its products and to expand displays of promotionally-priced or fast-moving items in response to market demand. Because the products sold by the Company attract customers of all ages, the Company does not focus its marketing efforts on any particular age group.

Customer Service. At each Crazy Eddie store, sales personnel are available to assist customers in their purchases by demonstrating products and providing information desired by the customer with respect to price, quality and other matters. The Company's store hours are intended to make Crazy Eddie stores generally accessible to customers who are unable to shop during ordinary business hours, although the Company has reduced its store hours to some extent as a cost-cutting measure; particular store hours are currently determined by the demand in the surrounding market area.

The Company accepts merchandise sold by it for service or repair at each Crazy Eddie store; minor repairs or servicing is performed at the Crazy Eddie store; when more extensive servicing or repair is required, the merchandise is forwarded to the Company's central service center, located at the Edison, New Jersey corporate headquarters. The central service center employs approximately 80 full-time servicing personnel, who are qualified to perform most ordinary repairs on almost all of the merchandise sold by the Company's stores, except for color televisions. The central service facility is an authorized warranty service center for Sony, Panasonic and Toshiba products, among others.

In addition, the Company offers its own extended warranty contracts for between 12 and 96 months, depending on the product, for most audio, video and computer merchandise sold by the Company and for certain other items, pursuant to which the Company provides overlapping and extended warranty coverage beyond the warranty period offered by the manufacturer. The Company also provides periodic maintenance services with respect to certain types of merchandise.

Employees

At May 20, 1988, the Company employed approximately 1,600 persons, including approximately 200 persons who are employed in the Company's corporate headquarters and central service center. The Company also employs a substantial number of additional employees on a part-time basis during peak holiday seasons. New management has eliminated a substantial number of management, clerical and store sales staff positions as a cost-cutting measure.

Executive Officers of the Registrant

The information contained in Part III, Item 10 of this Report on Form 10-K pertaining to executive officers of the Registrant is incorporated by reference into this Part I, Item 1.

ITEM 2. PROPERTIES.

The 42 existing Crazy Eddie stores are all located within a 150-mile radius of New York City. Twenty-one of these stores are located in New York, twelve are in New Jersey, five are in Connecticut and four are in Pennsylvania. The New York stores include eleven stores in New York City (seven located in the Borough of Manhattan, two in the Borough of Queens, one in the Borough of Brooklyn and one in the Borough of Staten Island), five in other parts of Long Island, two in Westchester County, one in Rockland County, one in Duchess County and one in Orange County.

Former management of the Company significantly expanded the Crazy Eddie chain of stores in recent fiscal years, opening eleven and eight new stores in fiscal years 1987 and 1988, respectively. Except for five new stores for which the Company has binding lease obligations committed to by former management, the Company has cancelled plans for any store additions or other significant capital expenditures until the Company's operating performance and liquidity position have significantly improved. The Company is continuing to analyze the binding nature of, or the assignability of, such five leases, but presently expects to open at least two of such stores. The Company is also analyzing the possibility of closing a few of its least profitable stores.

Crazy Eddie stores generally are situated on major commercial thoroughfares and are conveniently accessible to established urban neighborhoods or major residential areas in suburban neighborhoods. The Company's general policy is to lease its stores in order to limit its investments in fixed assets and increase the availability of capital for other purposes; however, the Company owns the corporate headquarters building which houses the Edison, New Jersey store. The Company also currently owns a building that houses its store in Flushing in the Borough of Queens in New York City but is in the process of negotiating a sale-leaseback of such property.

The Company's stores range in size from 1,600 to 12,000 square feet, but on the average are approximately 6,000 square feet. The leases are net leases requiring that, in addition to a fixed rent, the Company maintain and repair the leased premises at its own expense and pay all real estate taxes, utilities, insurance, heating and air conditioning costs. In addition, a few of the Company's leases provide for the payment of increased rentals based on a percentage of sales, but because sales volumes did not reach required levels the Company paid no percentage rentals during fiscal 1988. See NOTE 15 OF NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

The following table sets forth expiration dates (after giving effect to applicable renewal options) by calendar year, of the leases for the Company's existing stores.

Calendar	Number of Store Leases Expiring
1988-1989	1
1990-1992	3
1993-1995	4
1996-1998	4
1999-2002	11
2003-2005	2
2006-2009	10
2010-2012	5

Company Headquarters and Warehouses

The Company's corporate headquarters are located in a Company-owned facility in Edison, New Jersey which has approximately 210,000 square feet of space, 102,000 square feet of which are used to house the Company's executive offices, a retail store, central service center and a warehouse. The Company leases approximately 73,000 square feet of excess warehouse space at that location to an unrelated party pursuant to a lease expiring December 31, 1988, which provides for monthly rental payments of approximately $32,000. The Company is currently attempting to arrange a sale of these corporate headquarters in order to improve the Company's liquidity and reduce its fixed operating costs. The Company currently has a $7,500,000 loan at 1/4% above the prime rate secured in part by a first lien mortgage on the property and facility, and a line of credit, for up to $30 million at present, secured in part by a second lien on the property and facility. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

The Company also leases 315,000 square feet of warehouse space in East Brunswick, New Jersey, for a lease term expiring March 31, 1992, to serve as its central inventory receiving and distribution center and warehouse.

ITEM 3. LEGAL PROCEEDINGS

The SEC has instituted a formal investigation of the Company and its former management. The Commission's formal order of investigation directs its staff to determine whether former officers and directors of the Company made false statements relating to the financial condition of the Company in connection with the purchase and sale of securities and in public filings, and whether those former officers and directors violated insider trading laws. The investigation also focuses on whether the accounting records of the Company were falsified and on other issues relating to actions of past management. Several former and current employees of the Company have received subpoenas and have provided testimony to the SEC in this investigation. The Company continues to cooperate with the SEC staff and has conducted an internal investigation with respect to these matters.

The Company is also cooperating with the United States Attorney for the District of New Jersey in connection with an ongoing federal grand jury investigation which originally focused on practices related to claims made for compensation and reimbursement under manufacturers' warranties for repairs made and parts provided by the Company. The Company believes that the scope of this investigation has now been expanded to include most of the matters covered by the SEC investigation and the securityholders' litigation discussed below. To date, the Company has produced and identified documents and provided information with respect to personnel that it believes to have knowledge of relevant facts. Without limiting its right to reconsider its position in certain circumstances, the United States Attorney's office has advised the Company that, in view of the cooperation of new management so far and the Company's removal of officers and directors primarily responsible for the matters under investigation, it views current management and securityholders and, through them, the Company as victims of the matters being investigated rather than targets and does not at this point intend to seek an indictment against the Company.

The Company is a defendant in two securityholders' class action lawsuits alleging securities fraud, which are pending in federal court in Brooklyn and with respect to which the Company has entered into a proposed settlement agreement, subject to terms and conditions described below. It is contemplated that the plaintiff class will be expanded to include past and present debentureholders of the Company, as well as stockholders. A class has not yet been certified. A number of the Company's former officers and directors, including the Company's former Chairman, Eddie Antar, Peat Marwick, formerly the Company's auditors, and four underwriters of securities offered by the Company are named as defendants in each case. The securityholder litigation has been consolidated under the caption *Bernstein v. Crazy Eddie, Inc.*, No. 87 Civ. 0033 (E.D.N.Y.). The complaints allege a number of violations of federal securities law, corporate law and the Federal Racketeer Influenced Corrupt Organizations ("RICO") Act. The claims focus primarily upon prior management's conduct of the affairs of the Company, asserting that the Company experienced extremely large losses which former management fraudulently did not disclose to the investing public, and that former management systematically altered and destroyed Company records to conceal the fraud. Peat Marwick is charged with failing to apply generally accepted auditing standards and certifying materially false Company financial statements. Claims against the underwriters, Wertheim & Co., Salomon Brothers, Inc., Oppenheimer & Co., Inc. and Bear, Stearns & Co., Inc. allege that these defendants violated the federal securities laws by failing to investigate with due diligence the accuracy of the financial information furnished to purchasers of the Company's securities. Some of the defendants in the securityholders' litigation have sought indemnification from the Company and it is anticipated that others will do so.

The Company has entered into a settlement agreement with the plaintiffs in the securityholders' litigation, which was approved by the Board of Directors in March 1988. Among other things, the agreement provides that the Company and the securityholders will cooperate in prosecuting claims against former management and Peat Marwick. In addition, the securityholders reserve the right to file claims against underwriters for various securities offerings commencing on or after March 20, 1985. Any recovery from former management or the former auditors, net of the Company's costs of prosecuting the litigation (other than attorney's fees), will be divided between the securityholders and the Company, with the securityholders to receive 80% of any such recovery. The class of eligible securityholders is currently defined as those persons who purchased securities of the Company on or after March 20, 1985 (other than members of past management) through January 18, 1988. These securityholders are also to receive 2,750,000 shares of newly issued Common Stock. The Company has also agreed to attempt to rescind or to otherwise invalidate past management's "poison pill," or stockholder rights plan. The Company has further committed itself to bearing the costs of notice to the class and class administration, and to contributing $100,000 to assist the plaintiffs in prosecuting the securityholders' action. The agreement is subject to a number of conditions, including certification of the class, court approval, completion of plaintiff's discovery, consummation of a pending exchange offer for the Company's convertible subordinated debentures (see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS") and certain other conditions regarding fairness to all securityholders, the financial condition of the Company not being materially different from that represented in the Company's financial statements for the quarter ended November 29, 1987, and the execution of appropriate documents to carry out the agreement. On April 4, 1988, the Company filed its answer in the litigation and cross-claims against most of the other named defendants, including past management and Peat Marwick, seeking damages and indemnification for any liability to the securityholders. On April 18, 1988, the Company named additional discharged employees as defendants through the filing of a third-party complaint against them. The Company intends to cooperate with the securityholders in prosecuting this litigation vigorously.

On February 25, 1988, the Company filed a complaint against Peat Marwick in state court in New York to secure certain Company documents and workpapers needed by the Company's successor auditors for the completion of their work. Peat Marwick has now agreed to return the Company documents and to provide access to the needed workpapers. The action will be dismissed upon Peat Marwick's compliance with the terms of the settlement.

The Company is a nominal defendant in three consolidated derivative actions brought against certain of the former directors of the Company. The consolidated actions, dated March 3, 1987, were brought in the Delaware Court of Chancery, New Castle County, and are entitled *Schwartz v. Eddie Antar*. The complaint alleges: (1) that the defendants improperly failed to cause the Company to disclose alleged material adverse changes in events relating to comparable store sales and thereby caused the Company to incur costs and expenses in defending the alleged class actions discussed above; and (2) that the defendants engaged in "insider trading." It seeks damages on behalf of the Company against the former directors. No monetary relief is sought from the Company.

On July 13, 1987, Benel Distributors, Ltd., a firm owned by relatives of Eddie Antar which was licensed to sell records and tapes in the Company's stores, filed for bankruptcy after prior management cancelled its agreements. Benel obtained a temporary restraining order in an adversary proceeding in the United States Bankruptcy Court, District of New Jersey (*In re Benel Distributors, Ltd.*, Case No. 87-04259) to prevent the Company from evicting Benel. By agreement the licenses have now been cancelled and the temporary restraining order has been vacated. Benel's remaining claim for damages is pending and the parties are engaged in discovery with respect thereto; no trial date has been set.

In June 1986, the State of New York instituted an investigation relating to the Company's alleged sale of room air conditioners in violation of New York energy efficiency standards for appliances. On December 1, 1987, the Company was fined $1,588,750. On December 31, 1987, the fine was reduced to $357,450, subject to the Company's compliance with the payment schedule and refund-exchange procedure described hereunder. As of May 5, 1988, $250,215 of the fine has been paid and the balance is payable prior to July 5, 1988. The Company was also enjoined from making additional sales of non-complying air conditioners and will be required to advertise from May 1988 through July 1988 and to conduct during such period and for six months thereafter a refund-or-exchange program for non-complying air conditioners that were sold by the Company. Additionally, the Company will be required to pay $42,000 to the New York Attorney General's office following the refund-or-exchange program for that office's costs and disbursements in connection with the proceeding. The costs payable to the Attorney General will be reduced to the extent cash refunds exceed $40,000.

On November 6, 1987, the Company filed a suit in the Chancery Court of the State of Delaware (*Crazy Eddie, Inc. v. Eddie Antar, Sam E. Antar, Solomon E. Antar, Isaac Kairey, Eddy Antar, Edmond Levy, David V. Panoff, Steven Pasquariello, James H. Scott, Jr. and William H. Salzman*, No. 9378), seeking to void the employment contracts of certain former officers and directors, and to obtain repayment of loans made to certain officers and directors. All of these officers and directors except Eddie Antar filed suit in November 1987 in the state courts of New York against the Company for breach of the same alleged contracts, *Kairey, et al. v. Crazy Eddie, Inc.*, No. 28804/87 (Sup. Ct. N.Y.). All of the plaintiffs are also named as defendants in the pending securityholders' litigation. In order to consolidate the employment agreement litigation in one forum, the Delaware action has been stayed. The former officers are seeking over $5.5 million in aggregate damages.

Two other discharged former employees have also filed suits against the Company claiming that they are entitled to damages for the breach of "employment contracts" they claim to have entered into with former management in September 1987. In *Zimel v. Crazy Eddie, Inc.*, filed in state court in New Jersey, the former Director of Finance, has claimed as damages lost wages of $103,000 per year for the remaining term of the alleged three-year agreement, plus medical and dental expenses. In *Gindi v. Crazy Eddie, Inc.*, filed in federal court in the Southern District of New York, the former Acting Controller of the Company seeks over $225,000 in damages. The Company has filed a counterclaim for the unpaid $149,000 balance of a loan former management extended to him. Both former employees are also defendants in the pending securityholders' litigation.

The Company is also involved in litigation relating to claims arising out of its operations in the normal course of business. Such claims against the Company are generally covered by insurance. It is the opinion of management that any uninsured or unindemnified liability resulting from such litigation would not have a material adverse effect on the Company's business or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS.

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock is traded in the over-the-counter market (symbol: CRZY). Since February 12, 1985, the Company's Common Stock has been quoted on the NASDAQ National Market System.

The following table sets forth, for the fiscal periods indicated, the high and low last sale prices for the Company's Common Stock on the National Market System for the preceding two fiscal years. National Market System quotations are based on actual transactions and not bid prices. The quoted prices have been adjusted to give retroactive effect to a two-for-one stock split in the form of a one hundred percent stock dividend which the Company paid on September 30, 1986 (the "Stock Dividend").

	High	Low
Fiscal Year Ended March 1, 1987		
First Quarter	18 9/16	12 5/16
Second Quarter	21 5/8	15 3/4
Third Quarter	20 1/8	13
Fourth Quarter	15 1/2	7 3/8
Fiscal Year Ended February 28, 1988		
First Quarter	10 1/8	4 5/8
Second Quarter	8 5/8	3 1/2
Third Quarter	5 1/8	1 3/4
Fourth Quarter	2 1/4	1 1/4

As of May 16, 1988 there were 3,687 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 development of the Company's business. In addition, the terms of the Company's line of credit agreement with Fidelity Bank contain, and the proposed new indenture, pursuant to which new debentures will be issued by the Company in its pending exchange offer for the old debentures (See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS"), will contain, restrictions upon the payment of cash dividends upon the Common Stock. Accordingly, the Company does not anticipate paying any cash dividends to the holders of the Common Stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA.

NEW MANAGEMENT BELIEVES THAT PORTIONS OF THE FINANCIAL STATEMENTS FOR PERIODS WHICH INCLUDE PERIODS PRIOR TO NOVEMBER 6, 1987 ARE INACCURATE AND MAY NOT BE RELIED UPON.

IT IS ANTICIPATED AT THIS TIME THAT A RESTATEMENT OF ANY OF THE PRIOR PERIOD FINANCIAL STATEMENTS WILL NOT BE POSSIBLE DUE TO INACCURACIES IN, OR LACK OF, AVAILABLE RECORDS TO PERMIT AN ACCURATE RESTATEMENT.

IN NOVEMBER 1987, NEW MANAGEMENT ENGAGED TOUCHE ROSS TO REPLACE THE COMPANY'S FORMER INDEPENDENT AUDITORS. THE REPORT OF TOUCHE ROSS ON THE COMPANY'S FINANCIAL STATEMENTS INCLUDED HEREIN FOR THE FISCAL YEAR ENDED FEBRUARY 28, 1988 INCLUDES AN OPINION ON THE BALANCE SHEET ONLY BUT, BECAUSE IT

WAS IMPRACTICABLE TO DETERMINE THE EXTENT TO WHICH CERTAIN ADJUSTMENTS TO THE FINANCIAL STATEMENTS FOR FISCAL 1988 RELATE TO PRIOR YEARS, THEY HAVE BEEN UNABLE TO EXPRESS AN OPINION ON THE STATEMENT OF OPERATIONS AND THE STATEMENT OF CHANGES IN FINANCIAL POSITION. EXCEPT FOR THE BALANCE SHEET AT FEBRUARY 28, 1988, THE FINANCIAL STATEMENTS PRESENTED ARE NOT BEING REPORTED UPON IN THIS ANNUAL REPORT ON FORM 10-K. FINANCIAL STATEMENTS FOR THE COMPANY'S FISCAL YEARS ENDED MARCH 1, 1987 AND MARCH 2, 1986 INCLUDED HEREIN ARE TAKEN FROM THE COMPANY'S ANNUAL REPORTS ON FORM 10-K, AS PREVIOUSLY FILED FOR SUCH FISCAL YEARS BY FORMER MANAGEMENT AND AS PREVIOUSLY REPORTED UPON BY PEAT MARWICK. PEAT MARWICK HAS DECLINED TO REISSUE THEIR AUDIT REPORT FOR SUCH PRIOR PERIODS WITHOUT A LETTER OF ASSURANCE FROM TOUCHE ROSS THAT NOTHING HAS COME TO THE ATTENTION OF TOUCHE ROSS THAT WOULD MAKE THE PRIOR FINANCIAL STATEMENTS MISLEADING. TOUCHE ROSS HAS ADVISED THE COMPANY THAT THEY ARE UNABLE TO GIVE SUCH A LETTER OF ASSURANCE.

The following table sets forth certain selected consolidated financial data with respect to the Company. Subject to the foregoing paragraphs, such selected financial data is qualified in its entirety by reference to the financial statements and notes thereto.

	Year ended February 28, 1988	Year ended March 1, 1987	Year ended March 2, 1986	Nine months ended May 3, 1985(1)	Year ended May 31, 1984	Year ended May 31, 1983
	(In thousands, except share data)					
Net sales	$ 315,539	$352,523	$262,268	$136,319	$137,285	$111,406
Cost of goods sold	346,791	272,255	194,371	103,421	106,934	87,719
Selling, general and administrative expenses	91,195	60,329	43,034	19,897	21,854	21,107
Interest expense (income), net	5,972	(658)	(1,649)	438	522	450
	448,958	331,926	235,756	123,756	129,310	109,276
(Loss) earnings before (benefit) provision for income taxes	(133,419)	20,597	26,512	12,563	7,975	2,130
(Benefit) provision for income taxes	(24,321)	10,001	13,268	6,734	4,202	1,235
Net (loss) earnings	$(109,098)	$ 10,596	$ 13,244	$ 5,829	$ 3,773	$ 895
(Loss) earnings per share	$ (3.52)	$ 0.34	$ 0.48	$ 0.24	$ 0.18	$ 0.04
Weighted average number of shares outstanding(2)	30,957	31,204	27,664	24,212	20,000	20,000
Working capital (deficiency)	$ 32,244	$153,034	$ 29,810	$ 18,794	$ (2,136)	$ (2,506)
Total assets	$ 148,799	$294,858	$126,950	$ 65,528	$ 36,570	$ 24,707
Long-term debt(3)	$ 81,607	$ 89,434	$ 7,701	$ 7,625	$ 46	$ 70
Stockholders' equity	$ (18,738)	$ 93,260	$ 42,621	$ 23,861	$ 6,224	$ 2,951

(1) The Company changed its fiscal year end from May 31 to the Sunday nearest the end of February, effective March 3, 1985.

(2) Adjusted to give retroactive effect to a two-for-one stock split which the Company paid in the form of a one hundred percent stock dividend on September 30, 1986, (the "Stock Dividend").

(3) Includes the Company's outstanding convertible debentures as part of long-term debt.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 a substantial understatement of accounts payable.

In addition, new management believes that the amounts reported for cost of goods sold in the Company's income statements for prior periods are inaccurate and that amounts shown as retail store sales revenues actually included revenues from wholesale sales. CONSEQUENTLY, 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.

ACCORDINGLY, SUBJECT TO NEW MANAGEMENT'S DISCLAIMERS AS TO THE ACCURACY OF FINANCIAL STATEMENTS FOR ALL PERIODS WHICH INCLUDE PERIODS PRIOR TO NOVEMBER 6, 1987, AND ONLY IN ORDER TO COMPLY WITH THE RULES AND REGULATIONS UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, NEW MANAGEMENT HAS INCLUDED THE REQUIRED COMPARISON OF THE COMPANY'S OPERATING RESULTS FOR THE 1988 AND 1987 FISCAL YEARS; HOWEVER, SINCE INACCURACIES IN, OR A LACK OF, AVAILABLE RECORDS DO NOT PERMIT NEW MANAGEMENT TO ACCURATELY RESTATE PRIOR PERIOD FINANCIALS OR TO DETERMINE IN WHICH OF THE PRIOR PERIODS THE INVENTORY SHORTFALL AND OTHER ADJUSTMENTS SHOULD HAVE BEEN MADE, THE ACCURACY AND RELIABILITY OF SUCH COMPARISON OF THE 1988 AND 1987 FISCAL YEARS IS INHERENTLY LIMITED. SUBJECT TO NEW MANAGEMENT'S DISCLAIMERS AS TO THE ACCURACY OF FINANCIAL STATEMENTS FOR ALL PERIODS WHICH INCLUDE PERIODS PRIOR TO NOVEMBER 6, 1987, FOR THE REQUIRED COMPARISON OF THE 1987 AND 1986 FISCAL YEARS NEW MANAGEMENT HAS INCLUDED THE COMPARISON EXACTLY AS PRESENTED FOR SUCH PERIODS BY FORMER MANAGEMENT IN THE COMPANY'S FORM 10-K FOR THE FISCAL YEAR ENDED MARCH 1, 1987.

Results of Operations

Fiscal year ended February 28, 1988 compared to fiscal year ended March 1, 1987.

Net sales for the fiscal year ended February 28, 1988 were approximately $315.5 million compared to $352.5 million for the fiscal year ended March 1, 1987. In addition to increasing competition and a currently weakened consumer electronics market industry-wide, management believes the sales decline was attributable in significant part to former management's inclusion of an unknown volume of wholesale sales in its reported net sales for the prior year and to the effect of reductions in the quantity and variety of merchandise in the stores during the later part of fiscal year 1988 as a result of the Company's liquidity problems. Former management's wholesale operations are not a part of the Company's continuing operations. New management has implemented programs designed to improve the Company's sales performance and has restructured compensation arrangements in an effort to restore the morale and sales incentive of the Company's salespersons.

Cost of goods sold for the fiscal year ended February 28, 1988 substantially exceeded the Company's net sales for fiscal 1987 as a result of the shortfall from book inventory and other adjustments detected after the change in management. Beginning on November 6, 1987, the Company's new management began a thorough review of the Company's business operations and financial records. A physical inventory of merchandise conducted shortly thereafter revealed that there was a shortfall in inventory on hand compared to the recorded inventory book value on the

Company's financial statements. Because of inadequacies in the Company's inventory system, it was necessary to estimate the average gross margin on sales and, to a lesser extent, the Company's purchases during the period from August 30, 1987 to the date of the physical inventory in order to determine the book inventory value at the date of the physical inventory for comparison purposes. Analysis indicated that this shortfall from book inventory was approximately $65.0 million, as reported previously in the Company's Form 10-Q for the quarter ended November 29, 1987. New management had in addition discovered by the filing date of the Company's Form 10-Q for the quarter ended November 29, 1987 an understatement of the Company's accounts payable by approximately $4.8 million and had adjusted the Company's accounts payable and charged its cost of goods sold accordingly as of that date. The completion of new management's evaluation of the Company's accounts and asset carrying values during the course of the audit for the 1988 fiscal year has required additional adjustments, which have been charged to fiscal 1988's cost of goods sold, of $5.0 million in understated accounts payable arising from the reversal of former management's improper debit memos and of $4.2 million as a reserve for obsolete, slow-moving or damaged inventory.

New management has taken steps since assuming responsibility designed to improve the Company's internal accounting and inventory systems, including the use of "point-of-sale" monitoring of sales and inventory at each store, making available aggregate sales, inventory and margin reports for management on a prompt basis, the generation of store-by-store profitability reports and analyses, and store inventory replenishment based on corporate office analysis of "point-of-sale" data rather than by orders placed by store management.

Selling, general, and administrative expenses were approximately $96.2 million for the fiscal year February 28, 1988 compared to $60.3 million in the prior fiscal year. The increase in these expenses is primarily attributable to additional payroll and related costs, advertising costs resulting from the expansion into new markets, costs incurred in connection with the Company's corporate restructuring following the management change and other related items. In addition to the $2.0 million which had been accrued as of November 29, 1987 to provide for the reorganization of the Company's operations following the management change, related severance costs and reserves for certain amounts advanced by former management to since terminated employees, the Company has increased its reserve for such expenses at February 28, 1988 by an additional $800,000. In addition, approximately $2.5 million was accrued for proxy expenses during the 1988 fiscal year, the payment of which is subject to certain conditions. See "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS." New management has taken actions which are expected to bring selling, general, and administrative expenses in line with anticipated sales levels, including the elimination of substantial numbers of management, clerical and sales staff positions.

Interest expense increased by approximately $3.9 million during fiscal 1988 from the prior fiscal year because of substantially increased bank borrowings during fiscal 1988 and because the Company's $81 million principal amount of convertible subordinated debentures were outstanding throughout the 1988 fiscal year.

Because of the inventory shortfall and other adjustments and the Company's continued operating losses, the Company estimated that it had available a book net operating loss carryforward of approximately $73.7 million at February 28, 1988. Additionally, tax refunds attributable to loss carrybacks reduced the amount of the Company's losses for the fiscal year ended February 28, 1988 by approximately $30.6 million; the availability of such loss carryforwards for future periods may be reduced or limited by the pending Exchange Offer or certain other transactions. See "Liquidity and Capital Resources" hereunder.

Fiscal year ended March 1, 1987 compared to fiscal year ended March 2, 1986.

SUBJECT TO NEW MANAGEMENT'S DISCLAIMERS AS TO THE ACCURACY OF FINANCIAL STATEMENTS FOR ALL PERIODS WHICH INCLUDE PERIODS PRIOR TO NOVEMBER 6, 1987, FOR THE REQUIRED COMPARISON OF THE 1987 AND 1986 FISCAL YEARS NEW MANAGEMENT HAS INCLUDED THE FOLLOWING COMPARISON EXACTLY AS PRESENTED FOR SUCH PERIODS BY FORMER MANAGEMENT IN THE COMPANY'S FORM 10-K FOR THE FISCAL YEAR ENDED MARCH 1, 1987.

"Net sales for the year ended March 1, 1987 were $352.5 million, representing an increase of $90.2 million or 34% over the year ended March 2, 1986. New stores in operation and other merchandising activities during the year ended March 1, 1987 were responsible for an increase of $93.4 million in sales. The balance of the change ($3.2 million decrease) resulted from decreased sales at the stores that were open throughout both periods. Comparable store sales for the 1987 fiscal year decreased 1.5% from the prior year. Sales per square foot declined 4.6% during fiscal 1987 to $2,769 from $2,903 for the year ended March 2, 1986. Average sales per store declined 5.3% to $12.6 million for the year ended March 1, 1987, compared to $13.3 million for the year ended March 2, 1986.

"Gross profit (net sales less cost of goods sold) increased $12.3 million for the year ended March 1, 1987 as compared with the year ended March 2, 1986. This increase was primarily due to the increase in sales discussed above. Gross profit as a percentage of sales approximated 22.8% for the year ended March 1, 1987 as compared to 25.9% for the year ended March 2, 1986. This decline resulted from increased competition and resulting pressure on profit margins. The additional working capital generated from operations and public offerings of the Company's common stock and its convertible debenture offering has enabled the Company to negotiate favorable buying terms with many of the Company's vendors.

"Selling, general and administrative expenses increased by $18.4 million during the year ended March 1, 1987, which increase principally reflects the costs of operating the twelve new stores opened. The increase in the percentage of selling, general and administrative expenses to sales during the year ended March 1, 1987 (17.4% compared to 16.4% during the year ended March 2, 1986) primarily resulted from the Company's costs in setting up expansion programs (including relocation of the Company's corporate headquarters and warehouse facilities), lower comparative store sales while expenses increased, telemarketing, entries into new markets, and writing off preopening costs as incurred.

"The effective tax rate for the year ended March 1, 1987 approximated 48.6% compared to 50.0% for the year ended March 2, 1986. The reduction in the effective rate resulted from investments in tax-exempt obligations and the reduction of the average state and local income tax rate due to the Company's operating relatively more stores in states with lower tax rates."

Liquidity and Capital Resources

The Company's cash and short-term investments of $14.9 million at February 28, 1988, reflected a decrease of $116.4 million from the prior fiscal year-end. The decrease principally resulted from the operating losses, net of depreciation and amortization, incurred for the 1988 fiscal year and the repayment of approximately $32.7 million of debt, including the forced repayment of certain amounts due to the revocation of a $52 million line of credit from Chemical Bank and a $50 million line of credit from First Republic Bank of Dallas. Reflecting these factors, the Company's working capital decreased $120.8 million during the 1988 fiscal year to $32.2 million at February 28, 1988. Working capital was decreased to a lesser extent during the 1988 fiscal year by the addition of planned new stores and other capital expenditures, the repurchase of approximately $3.9 million of Common Stock, and a loss of approximately $1.2 million on the untimely sale (due to liquidity problems) of short-term investments.

On October 7, 1987, a short-term secured demand loan (due in August 1988) was obtained from Midlantic National Bank, the outstanding balance of which was approximately $7.5 million at February 28, 1988. Such loan and certain outstanding letters of credit issued by that bank were secured at May 20, 1988, by $2.0 million of United States Treasury securities, approximately $5.5 million of the bank's commercial paper and $500,000 of certificates of deposit and by a first lien on the Company's headquarters facility in Edison, New Jersey. The loan is payable on demand and bears interest at the rate of one-quarter of one percent above Midlantic National Bank's prime rate.

New management has taken certain steps intended to relieve liquidity pressures since assuming control on November 6, 1987. The Company has negotiated a series of lines of credit from Fidelity Bank National Association of Philadelphia ("Fidelity Bank"), and has recently obtained a letter of commitment from Fidelity Bank to extend a $21.5 million revolving line of credit through June 30, 1989 (not subject to repayment on demand), subject to the execution hereafter of a definitive loan agreement containing mutually agreeable financial covenants and other conditions. The Company currently has in effect a line of credit with Fidelity Bank for up to a maximum of $30 million, subject to the amounts of the Company's otherwise unencumbered inventory borrowing base and unreceived tax refunds (which form the components of the borrowing base against which borrowings can be made). Since the Company has already received most of the anticipated tax refunds, the Company's levels of unencumbered inventory as of May 20, 1988 permit approximately $19 million in borrowings under the line, approximately $5.3 million of which was outstanding at May 20, 1988. The current loan is payable on demand or, if no earlier demand is made, on June 30, 1988, and bears interest at an annual rate equal to Fidelity Bank's prime rate plus 2%. The current loan is, and the new loan will be, secured by the Company's cash and certificates of deposit for $1.5 million, accounts receivables, inventory, equipment, trademarks, general intangibles, the unreceived tax refunds referred to hereunder, and proceeds of the foregoing. The loan is also secured by a second lien on the Company's headquarters facility.

EMI has made available to the Company an $11.0 million line of credit for purposes of inventory purchases from EMI, on which $5.7 million was outstanding as of May 20, 1988. See "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS" herein.

New management paid in full substantially all past due account balances existing at November 6, 1987, and has taken other steps designed to improve the Company's relationships with vendors. The Company is generally current on substantially all of its accounts payable at May 20, 1988. On May 25, 1988, the Company commenced an offer to exchange (the "Exchange Offer") $1,000 principal amount of its 6¼% convertible subordinated debentures due June 15, 1998 (the "New Debentures") for each $1,000 principal amount of its 6% convertible subordinated debentures due June 15, 2011 (the "Debentures"), of which $80,975,000 aggregate principal amount is outstanding as of May 20, 1988. The Exchange Offer for the Company's outstanding Debentures is a crucial element in management's efforts to maintain and strengthen relationships with vendors, lenders and others who may require, as a condition to doing business with the Company, that the Company's financial statements reflect what they regard as adequate stockholders' equity. The successful consummation of the Exchange Offer will increase the Company's stockholders' equity for financial accounting purposes and could also enable the Company to reduce its cash requirements if the Company should elect to pay a portion of the interest on the New Debentures in Common Stock, as it is proposed it will have a right to do through the December 15, 1990 semiannual interest payment. If the Exchange Offer is consummated, the Company will recognize a gain for accounting purposes of approximately $38 million and a corresponding increase in the Company's stockholders' equity; the foregoing assumes 90% acceptance of the Exchange Offer and is based on certain assumptions as to the probable initial trading price of the New Debentures, when issued. If there is less than 90%

acceptance of the Exchange Offer, or the initial trading price of the New Debentures is higher than the Company has assumed, or both, a lesser gain and a lesser increase in stockholders' equity will be recognized by the Company. The amount of the gain recognized by the Company from the Exchange Offer will be reflected on the Company's balance sheets for future periods as a discount from the principal value of the New Debentures; this discount will be accreted over the ten year term of the New Debentures and will reduce the amount of the Company's net income, if any, and stockholders' equity during such ten year period. If the Exchange Offer is not successful, the Company may be unable to obtain trade credit from key suppliers in amounts sufficient to maintain adequate inventory levels in its stores. It may also be unable to increase trade credit to meet seasonal peak inventory requirements.

The Company has claimed and received tax refunds of $30.1 million from the Internal Revenue Service and certain states and anticipates receiving additional income tax refunds from state and local governments of approximately $5.9 million based upon loss carryback availability, overpayments for fiscal 1987 and prepayments in fiscal 1988. The Company also estimates that, as of February 28, 1988, it had available book net operating loss carryforwards of approximately $73.7 million. The pending Exchange Offer, if consummated, would reduce the book net loss carryforward at February 28, 1988 by approximately $13.5 million, assuming 90% acceptance and based on certain assumptions as to the probable initial trading price of the New Debentures when issued, and in conjunction with certain other transactions may in certain circumstances operate to further limit the amount of net operating loss carryforwards and certain other tax credits available to the Company.

Except for up to five new stores which the Company may open because of binding lease obligations committed to by former management, the Company has cancelled plans for any store additions or other significant capital expenditures until the Company's operating performance and liquidity position have significantly improved. The Company is continuing to analyze the binding nature of, or the assignability of, such five leases, but believes it has or can obtain sufficient inventory, and fixtures, equipment and other capital resources to open all five of such stores, if management determines that it is in the Company's best interests to open all of such stores; management presently expects to open at least three of such stores. New management is also analyzing the possibility of closing a few of the Company's least profitable stores. In addition, the Company is attempting to sell certain of its capital assets, including the Company's headquarters in Edison, New Jersey, in order to improve its liquidity and reduce its fixed operating costs.

The fiscal 1988 consolidated financial statements of the Company have been prepared assuming that the Company will continue as a going concern, notwithstanding the net loss of $109.1 million sustained during the 1988 fiscal year leading to the current deficiency in net assets of $18.7 million. The majority of the loss reported in fiscal 1988 arose prior to new management taking over, including the events giving rise to the write-off of inventory and accounts payable adjustments. Additionally, new management believes that the loss in the fourth quarter was substantially caused by the adverse after-effects of the activities of former management, which new management believes have been addressed.

New management projects that the Company will continue to sustain operating losses for the first three quarters of fiscal 1989. However, the losses are projected to be substantially less in the aggregate than those recorded in the first three-quarters of fiscal 1988. Accordingly, management believes that its current operating plan, based on current sales trends and expense levels, combined with current financing arrangements, will result in adequate cash flow availability to sustain operations until profitability is attained. Nevertheless, there can be no assurance of this and the Company may experience serious liquidity problems in the near future if its sales levels and profitability deteriorate further. The Company's cash flow problems and financial position could adversely impact its ability to obtain trade credit from key suppliers in amounts sufficient to maintain adequate inventory levels in its stores, or to increase trade credit to meet seasonal peak inventory requirements. Management believes that the increased stockholders' equity resulting from the Exchange Offer will maintain and strengthen its relationship with trade and other creditors. To the extent funds from operations are inadequate to meet the Company's needs, the Company would be required to seek additional debt or equity financing. There can be no assurance that such alternative sources of funds would be available, or available on terms acceptable to the Company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data required by this Item 8 are set forth at the pages indicated in Item 14(a) below.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Change in Management

In May 1987, the Board of Directors of the Company received an offer from First City Capital Corporation and Eddie Antar, then Chairman of the Board, (collectively, the "Antar Group") to purchase all of the outstanding Common Stock pursuant to a negotiated merger transaction in which stockholders of the Company would receive $7.00 per share in cash.

Seventeen alleged class actions (which were eventually consolidated into one action) were brought challenging the proposed buy-out by the Antar Group. An additional lawsuit was brought seeking, among other things, to enjoin the Company from taking certain actions in connection with the buy-out offers and to direct the Company to provide pertinent financial information to all potential acquirors of the Company. See "LEGAL PROCEEDINGS."

In June 1987, the Board of Directors of the Company received an offer from EMI to purchase all of the outstanding Common Stock pursuant to a negotiated merger transaction in which stockholders of the Company would receive $8.00 per share in cash. Following releases of information concerning the deterioration of the Company's operations and financial condition, and as a result of its dissatisfaction with the Company's cooperation, EMI withdrew its offer in July 1987. The Antar Group's offer was withdrawn in August 1987.

Subsequent to the withdrawal of its offer, EMI entered into an agreement with the Oppenheimer-Palmieri Fund, pursuant to which EMI and the Oppenheimer-Palmieri Fund, jointly acting as the Committee to Restore Stockholder Value (the "Proxy Committee"), agreed to propose and solicit proxies for nominees for election to the Company's Board of Directors at the 1987 annual meeting. In connection therewith, EMI commenced and prevailed in actions against the Company in Delaware Chancery Court to compel the calling of the annual meeting and to obtain access to the Company's shareholder lists.

At the November 6, 1987 annual meeting, the Company's stockholders elected the full slate of new directors proposed by the Proxy Committee. At a meeting of the new Board of Directors held immediately thereafter, almost all of the Company's officers were removed and new officers affiliated with EMI or the Oppenheimer-Palmieri Fund were appointed.

Entertainment Marketing, Incorporated. EMI is a distributor of computer peripherals, consumer electronics and other products. EMI distributes a variety of computer systems and computer peripherals, including hard disk and floppy disk drive systems, controller cards, monitors, printers and modems. EMI also distributes a variety of consumer electronics, including video recorders, televisions, stereo systems, telephones and compact disc players.

EMI has acquired 1,629,000 shares of the Company's Common Stock at an aggregate investment of approximately $12.3 million. Elias Zinn, the Chairman of the Board of EMI and the President and a director of the Company, has acquired 685,000 shares of the Company's Common Stock at an aggregate investment of approximately $3.4 million. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT." Pursuant to an agreement dated October 8, 1987, Mr. Zinn agreed to contribute to EMI one-half of his after-tax profits (as defined in such agreement), if any, resulting from any sale or other disposition of shares of the Company's Common Stock owned by him.

EMI was incorporated in Texas in 1981. Its executive offices are located at 10310 Harwin, Houston, Texas 77036. Its telephone number is (713) 995-4433.

The Oppenheimer-Palmieri Fund. The Oppenheimer-Palmieri Fund is a private limited partnership which was established in May 1985 to enhance value through the active management of investments in companies with unrealized potential. Investment candidates range from profitable but under-performing companies, to companies in a turnaround situation which may not have achieved profitability, and companies involved in workouts and bankruptcies. The Oppenheimer-Palmieri Fund has acquired 2,926,500 shares of the Company's Common Stock at an aggregate investment of approximately $12.9 million. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT."

The Oppenheimer-Palmieri Fund operates through Oppenheimer-Palmieri Management Group, whose executives identify and evaluate investment opportunities, negotiate transactions and implement The Oppenheimer-Palmieri Fund's strategies by working closely with the management of portfolio companies. The executive offices of The Oppenheimer-Palmieri Fund are located at 237 Park Avenue, New York, New York 10017. Its telephone number is (212) 972-8065.

Directors and Executive Officers

The following table sets forth certain information concerning each director and executive officer of the Company:

Name	Age	Offices Held
Victor H. Palmieri	58	Chairman of the Board
Elias Zinn	33	President, Chief Executive Officer and Director
Michael Wilcoxson	35	Executive Vice President—Operations, Assistant Secretary and Director
David L. Yankey	44	Executive Vice President—Finance, Treasurer, Chief Financial Officer and Assistant Secretary
T. David Mullen	60	Vice President, Secretary and General Counsel
John P. Harbin	70	Director
John A. Koskinen	48	Director
Frank E. Loy	59	Director
Peter A. Martosella, Jr.	52	Director
Lawrence C. McQuade	60	Director
Rex A. Sebastian	58	Director
John V. Thornton	64	Director

The Company's directors hold office until the next annual meeting of stockholders or until their successors have been duly elected and qualified. The Company's officers are elected annually by the Board of Directors and hold office at the pleasure of the Board. Mr. Yankey joined the Company in his present capacities in March, 1988, and Mr. Mullen joined the Company in his present capacities on May 1, 1988. Except for Messrs. Yankey and Mullen, and except that Messrs. Wilcoxson and Yankey became Assistant Secretaries on May 17, 1988, each of the Company's directors and executive officers has held his present positions with the Company since November 6, 1987. The prior or concurrent business associations of such persons are as follows:

Mr. Palmieri is Chairman of The Palmieri Company, a firm organized in 1969 to assist business and government institutions in the management of diversified asset holdings and operating companies, Chairman of the Oppenheimer-Palmieri Management Group and controlling shareholder of one of the co-general partners of The Oppenheimer-Palmieri Fund. Mr. Palmieri served as Chairman of Baldwin-United Corporation (which entered proceedings under Chapter 11 of the Federal Bankruptcy Code on September 26, 1983, and reorganized as PHLCORP, Inc. on March 18, 1986) from October 1983 to March 1987, as Chief Executive Officer from May 1983 to February 1986 and as President from May 1983 to October 1983. Mr. Palmieri also served as Chairman of

Pennsylvania Company and its subsidiary Great Southwest Corporation, and as Chairman of the Executive Committee of its subsidiary Arvida Corporation, from December 1969 to June 1977. Mr. Palmieri is presently a trustee of The Rockefeller Foundation, Chairman of the Overseas Development Council and President and a Director of The Lincoln Center Theater. He has been a visiting lecturer at universities and business schools throughout the United States and has taught courses on corporate crisis management at the Stanford Law School and the John F. Kennedy School of Government at Harvard University. From 1979 to 1981, Mr. Palmieri served as Ambassador at Large and United States Coordinator for Refugee Affairs in the Department of State.

Mr. Zinn is the founder and, since its incorporation in April 1981, has served as a Director and the Chief Executive Officer of Entertainment Marketing, Incorporated, a company listed on the American Stock Exchange. He has served as Chairman of the Board of EMI since that position was created in November 1987. Mr. Zinn served as President of EMI from its incorporation until September 1987. Mr. Zinn also served as Chief Financial Officer and Treasurer of EMI from April 1981 until May 1986. He has more than 15 years experience in the consumer electronics industry. Mr. Zinn was an employee of Custom Hi-Fi Discount Centers, Inc. ("Custom Hi-Fi") from February 1973 until December 1981, and served as President thereof from February 1976 until December 1981. Custom Hi-Fi was a family owned and operated chain of retail consumer electronics stores which, at its peak in 1981, operated 72 stores in 10 states. In December 1981, Mr. Zinn resigned from Custom Hi-Fi. In July 1983, one and one-half years after Mr. Zinn's resignation, Custom Hi-Fi commenced a bankruptcy reorganization under Chapter 11 of the Federal Bankruptcy Code.

Mr. Yankey was a Director, Vice President and the Treasurer of Greenman Bros., Inc., a Farmingdale, New York company, from 1979 until March 1988, and served concurrently as President and Chief Executive Officer of its 330 store Circus World Toy Stores subsidiary from 1985 until March 1988, and as Vice President and Chief Financial Officer of that subsidiary from 1979 to 1985. For the ten years prior thereto, Mr. Yankey was with the B. Siegel Company of Detroit, which operates a chain of junior department stores, serving as Executive Vice President and Chief Operating Officer for his final three years there. Mr. Yankey is a certified public accountant.

Mr. Mullen has been an officer of PHLCORP., Inc., formerly Baldwin-United Corporation, since 1974. From 1974 to 1978 he served as Secretary of The United Corporation, and from 1978 through April 1988 he was Vice President and counsel of PHLCORP., Inc. From 1954 to 1974, Mr. Mullen was an attorney in private practice with major New York law firms.

Mr. Wilcoxson served as Vice President-Sales of EMI from December 1983 until November 1987, and had been a regional manager for EMI since August, 1983. From October 1978, to August 1983, Mr. Wilcoxson was the supervisor of ten stores for Custom Hi-Fi.

Mr. Harbin is a private consultant and was Chairman of the Board and Chief Executive Officer of the Halliburton Company, a company involved in oil field services, engineering and construction, until his retirement in May 1983. He is a director of Petrolite Corporation, a NASDAQ-listed producer and supplier of specialty chemical products, and The Circle K Corporation, a New York Stock Exchange listed convenience store operation. Mr. Harbin is also a director of American Healthcare Management, Inc. an American Stock Exchange company engaged in the provision of health care services, which is currently in bankruptcy, Lone Star Technologies, Inc., a NASDAQ listed company which is involved in the production of steel and oil field tubular products, and Concorde Bank Dallas, N.A., a privately held bank.

Mr. Koskinen joined The Palmieri Company in 1973 as Vice President. In 1974, he became a director of that firm and was elected President in 1977 and Chief Executive Officer in 1979. From April 1973 to December 1982, Mr. Koskinen was the President and Chief Executive Officer of the Penn Central Properties Division of The Palmieri Company. From January 1975 to August 1978, he served as Chairman of the Board of Levitt and Sons, Inc., and from June 1977 to November 1985, he was President and Chief Executive Officer of the Central States Assets Division of The Palmieri

Company responsible for management of the eastern real estate assets of the (Teamsters) Central States, Southeastern and Southwestern Area Pension Fund. Since 1981, he has also served as Chairman and Chief Executive Officer of VPCO Properties, Inc., and since 1982 he has served as managing General Partner for VPCO Properties II Limited Partnership. In addition, Mr. Koskinen serves as an officer and/or a director of other entities affiliated with The Palmieri Company, including The Oppenheimer-Palmieri Fund. Mr. Koskinen is presently a Trustee of Duke University, a member of the Board of Directors of the National Captioning Institute and a Trustee of the Cooperative Assistance Fund.

Mr. Loy has been President of The German Marshall Fund of the United States since 1981, following a career as a senior government official, a business executive and a lawyer. As President of The German Marshall Fund, he oversees an independent American grant-making institution with an annual budget of approximately $7 million and a capital fund of over $70 million. In his government service, Mr. Loy served, in 1980 and 1981 as Director of the State Department's Bureau of Refugee Programs, with the personal rank of Ambassador. From 1965 to 1970, he served as Deputy Assistant Secretary of State for Economic Affairs. In association with The Palmieri Company, Mr. Loy spent the period from 1974 to 1978 working in the successful restructuring of The Penn Central Railroad Corp. He was brought in as President of the subsidiary which operated all the non-railroad businesses of the bankrupt company. From this core company, Penn Central Corporation emerged in 1978.

Mr. Martosella is presently a Managing Director of The Palmieri Company. Mr. Martosella was elected Corporate Vice President of that company in September 1979, was named Senior Vice President in July 1982, and became a Director in April 1984. Under various management contracts with The Palmieri Company, Mr. Martosella held the following positions: from February 1986 to March 1987, he served as President, Chief Executive Officer and Director of Baldwin-United Corporation (reorganized as PHLCORP., Inc.). In October 1983, he was elected President and served as Chief Operating Officer and a Director of Baldwin-United Corporation until February 1986. From May to October 1983, he was Executive Vice President, Chief Operating Officer and a Director. From April 1982 to May 1983, Mr. Martosella was an Executive Vice President of The Palmieri Company's Central States Assets Division responsible for management of the eastern real estate assets of the (Teamsters) Central States, Southeast and Southwest Area Pension Fund. He also was a member of The Palmieri Company's Investment Committee which oversaw that project. From 1977 to 1982, Mr. Martosella served as Executive Vice President and Chief Operating Officer of The Palmieri Company's Penn Central Properties Division, with total management responsibility for a $1 billion portfolio of assets including such diverse operating assets as hotels, office buildings and coal lands.

Mr. McQuade has been Vice Chairman of Prudential Mutual Fund Management and a Senior Consultant to Prudential-Bache Capital Funding since January 1988. He was Chairman and Chief Executive Officer of Universal Money Centers, Inc. in 1987. From 1975 to 1987, Mr. McQuade was with W.R. Grace & Co., where he was Executive Vice President and a member of the Board of Directors. Between 1969 and 1975, he was President and Chief Executive Officer of Procon Incorporated, a world-wide engineering and construction company which designs and builds petroleum refineries and chemical plants. Earlier, Mr. McQuade had practiced law at Sullivan & Cromwell and had served as Assistant Secretary of Commerce under President Johnson. Mr. McQuade currently serves on the Boards of Directors of KaiserTech and of Kaiser Aluminum and Chemical Corp. He is also President, Director and/or Trustee of approximately 25 Prudential-Bache mutual funds.

Mr. Sebastian has been a private consultant since August, 1985. From January 1975 to July 1985, he served as Senior Vice President-Operations of Dresser Industries, Inc., a New York Stock Exchange listed company. Mr. Sebastian has been a director of May Petroleum Inc., a NASDAQ-listed oil and gas related company since 1980, and of Ferro Corporation, a New York Stock Exchange listed company since 1986.

Mr. Thornton has been Vice-Chairman of the Board of The Consolidated Edison Company of New York ("Con Ed"), a New York Stock Exchange listed company, since December 1984. Mr. Thornton was Senior Executive Vice President of Con Ed from July 1980 through November 1984. He is a Director and/or Trustee of American Savings Bank, Nuclear Electric Insurance Ltd. (Chairman), Nuclear Mutual Ltd., Public Utilities Reports, Inc. (Chairman), Citizens Budget Commission, Dickinson College, New York Botanical Garden and New York Law School.

Subsequent to the filing of this Annual Report on Form 10-K, David L. Yankey resigned, and as reflected in an amendment to such Form 10-K, Frank S. Fuino, Jr. joined the Company. Mr. Fuino, age 42, has served as Executive Vice President—Finance, Treasurer, Chief Financial Officer and Assistant Secretary of the Company since July 1, 1988. Mr. Fuino was formerly an officer of Allied Stores Corporation; from 1984 to 1987, he served as Vice President and Treasurer, from 1982 to 1984 as Treasurer and from 1977 to 1980 in various capacities on the accounting and treasurer staff. Prior to 1977 Mr. Fuino was an accountant with Touche Ross & Co. and served in other corporate financial and auditing positions.

The five directors of the Company who are not affiliated with either the Oppenheimer-Palmieri Fund or EMI are paid a standing fee of $1,000 monthly, a fee of $1,000 for each board meeting and $500 for each committee meeting, and are reimbursed for their expenses; in accordance with intentions disclosed in the proxy statement of the Proxy Committee, each such director was also granted a warrant in February 1988 to acquire up to 10,000 shares of Common Stock at $3.00 per share.

The Board of Directors has a permanent Audit Committee, Compensation Committee and Stock Option Committee. The Audit Committee is composed of Messrs. Loy, Harbin and McQuade and is responsible for reviewing internal controls and the preparation and presentation of the financial statements and changes in accounting practices, for consulting periodically with the Company's auditors and for related financial supervisory matters. The Compensation Committee, composed of Messrs. Palmieri, Sebastian and Thornton, reviews the nature and levels of executive compensation and advises the Board with respect thereto. The Stock Option Committee, composed of Messrs. Palmieri, Zinn and Martosella, administers the Company's employee stock option plan.

ITEM 11. EXECUTIVE COMPENSATION

Cash Compensation

The following table sets forth all cash compensation recorded on the Company's books or known to new management which was paid by the Company for services rendered during the fiscal year ended February 28, 1988, to (i) each of the Company's five most highly compensated executive officers during such period (all of whom were members of former management and are no longer employed by the Company) and (ii) all executive officers of the Company as a group:

Name of Individual or Number in Group	Capacities in Which Served	Cash Compensation(1)
Eddie Antar	Chairman of the Board	$ 369,231(2)
Mitchell Antar	Executive Vice President—Marketing, Executive Vice President and Chief Operating Officer and member of the Office of the President(3)	$ 334,812
Sam E. Antar......	Controller, Executive Vice President and Chief Financial Officer and member of the Office of the President(4)	$ 227,490
Isaac Kairey.......	Vice President—Operations(4)	$ 214,216
David V. Panoff....	Senior Vice President(4)	$ 166,643
Executive officers as a group (fifteen persons)(5)		$1,925,054

(1) The table does not include any amounts for personal benefits or other non-cash compensation received outside of the employee plans described herein because the dollar amounts thereof are not recorded and cannot be specifically ascertained by new management.

(2) Although Eddie Antar resigned as President of the Company in December 1986, and resigned as Chief Executive Officer of the Company in January 1987, the Board of Directors passed a resolution continuing Eddie Antar's compensation and benefits in full force and effect. He continued to receive a base salary at the rate of $600,000 per annum through September 22, 1987, when his employment arrangement was terminated, his nonaccountable expense allowance was reduced from $100,000 to $50,000, and the Company purportedly agreed to indemnify him from liabilities arising from actions taken as a director or officer of the Company and to advance his expenses in connection with the defense of any action seeking to impose such liability. The dollar amount of personal benefits received by Eddie Antar during the 1988 fiscal year cannot be specifically ascertained by current management.

(3) Mitchell Antar resigned as a director, Executive Vice President and Chief Operating Officer and a member of the Office of the President of the Company on June 5, 1987.

(4) Removed from office by the current Board of Directors on November 6, 1987. See "LEGAL PROCEEDINGS."

(5) Includes cash compensation paid for services rendered in all capacities during the fiscal year ended February 28, 1988, to all persons who were executive officers at any time during such fiscal year; includes an aggregate of $77,796 paid during the 1988 fiscal year to current executive officers of the Company. Does not include amounts paid to The Palmieri Company since November 6, 1987 pursuant to a consulting agreement with the Company. See "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS."

Employment Agreements and Change of Control Arrangements

On September 22, 1987, the former Board of Directors authorized the execution of five-year written employment agreements with seven of the executive officers constituting the Company's former management at an aggregate annual base salary of $1,000,000; none of such officers had previously had a written employment agreement. Each agreement provided that the employee could be discharged only for cause, defined as a felony conviction with all appeals exhausted or a failure to obey a direct order of the Board of Directors, with a one-week cure period. Each agreement provided that upon termination without cause or in the event of a constructive discharge, consisting of a modification of the employee's compensation arrangements, benefits or responsibilities, the employee would be entitled to collect all benefits provided for in the employment agreement without a duty to mitigate his damages. New management discharged each of these employees on or after November 6, 1987, and filed an action in Delaware state court to have the employment agreements declared invalid. These former employees have filed an action in New York state court for damages resulting from termination of the agreements. See "LEGAL PROCEEDINGS."

Mr. Fuino, the Company's new Executive Vice President-Finance, has a written employment agreement with the Company pursuant to which he will receive an initial base salary of $175,000 annually. Mr. Mullen, the Company's new Vice President and General Counsel, has a written agreement with the Company pursuant to which he will receive an initial base salary of $100,000 annually.

Mr. Zinn, the Company's new President, and Mr. Wilcoxson, the Company's new Executive Vice President-Operations, are full-time employees of the Company pursuant to oral agreements at annual base salaries of $144,000 and $100,000, respectively.

Stock Option Plan

The Company's 1984 Stock Option Plan was initially adopted by the Board and approved by the stockholders prior to the Company's initial public offering in September 1984. The 1984 Stock Option Plan, as amended (the "Option Plan") was adopted by the Board and approved by the stockholders at their annual meeting on July 22, 1986. The amendments made in 1986 principally (i) provided for the continued operation of the Option Plan by making available additional shares of Common Stock thereunder and (ii) authorized grants of "stock appreciation rights" under which an optionee may surrender unexercised all or any portion of a stock option covered thereby and receive, in lieu of the shares purchasable under the option (or portion thereof) surrendered, an amount generally equal to the "spread" between the aggregate exercise price under the option (or portion thereof) surrendered and the aggregate fair market value of the underlying Common Stock. A total of 2,000,000 shares of Common Stock (as adjusted to give effect to the Stock Dividends) were reserved for issuance under the Option Plan. The Option Plan provides for the granting to key employees of both "incentive stock options," within the meaning of section 422A of the Internal Revenue Code of 1986 (the "Code"), and "nonqualified stock options."

The Option Plan provides for administration by a committee (the "Committee"), consisting of three persons appointed by the Board. The Committee determines, by unanimous vote, the key employees to be granted options and stock appreciation rights under the Option Plan, the number of shares subject to each grant and the exercise price, and specifies whether options granted are incentive stock options or nonqualified stock options. Members of the Committee are not eligible to receive options under the Option Plan. Options generally expire immediately upon termination of employment for cause. No options granted under the Option Plan are transferable by the optionee other than by will or by the laws of descent and distribution, and each option is exercisable, during the lifetime of the optionee, only by the optionee. Any options granted to an employee generally terminate three months after the optionee's termination of employment except in cases of (i) disability occurring while employed or (ii) death while employed or within three months thereafter. No options will be granted under the Option Plan after ten years from the date the Option Plan was adopted.

The exercise price of any incentive option granted under the Option Plan may 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 granted under the Option Plan may be not 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 are determined by the Committee, subject to the requirement that no option may be exercisable more than 10 years after the date of grant. With respect to any incentive stock option granted to an employee who owns stock possessing more than 10% of the voting rights of the Company's outstanding capital stock on the date of grant, the exercise price of the option must be at least equal to 110% of the fair market value of the shares subject to the option on the date of grant and the option may not be exercisable more than five years after the date of grant. The aggregate fair market value (determined at the date of the option grant) of Common Stock with respect to which incentive stock options granted to any employee under the Option Plan first become exercisable in any one calendar year may not exceed $100,000. Incentive stock options granted prior to 1987 that first become exercisable after 1986 are disregarded for purposes of this limitation. The Option Plan permits the exercise of options either by a cash payment or, with the consent of the Option Committee, by surrender of shares of Common Stock, valued at fair market value at the date of surrender, or a combination of these methods.

The Option Plan allows the Committee to grant an optionee a stock appreciation right pursuant to which the grantee may surrender for cancellation the exercisable portion of his option (or any part thereof), and receive in consideration a payment by the Company of an amount equal to the difference between the fair market value of the stock subject to the surrendered portion of the option (determined on the date the stock appreciation right is exercised) and the option exercise price for those shares (or any greater appreciation base set by the Committee). Such payment will be made in cash or in shares of Common Stock, or a combination of both, as the Committee determines in its discretion. A stock appreciation right may be granted at the time the related option is granted or at any later date, as the Committee may determine. A stock appreciation right will be exercisable only at the times and to the extent the related option is exercisable and may be subject to additional conditions established by the Committee. Upon exercise of a stock appreciation right, the number of shares available for issuance under the Option Plan will be decreased by the number of shares covered by such exercise, and the related option will be cancelled automatically to the extent of the number of shares represented by such exercise; conversely, upon exercise of the related option, its tandem stock appreciation right will be cancelled automatically to the extent of the number of shares covered by the option exercise.

In an effort to improve the morale of key employees, the Company in March 1988 offered all optionees who were continuing employees, as well as certain new employees, nonqualified stock options under the Option Plan at an exercise price of $1.81 upon condition that they surrender for cancellation all of their outstanding unexercised options. Options to acquire 1,223,900 shares of Common Stock have been granted pursuant to this offer as of April, 1988, and options for approximately 237,700 shares have been cancelled pursuant thereto. Options for 1,933,050 shares are either outstanding under the Option Plan at May 27, 1988 or have been previously exercised.

The following table reflects as to those of the five most highly compensated executive officers during fiscal 1988 who exercised options during fiscal 1988 or had outstanding options at February 28, 1988 and as to all executive officers as a group (i) the net value (market value less exercise price) realized during fiscal 1988 upon exercise of options and (ii) the number of shares subject to all such options as of February 28, 1988. No options were awarded to executive officers during fiscal 1988.

	Mitchell Antar	David Panoff	All executive officers as a group (fifteen persons)
Exercised during fiscal 1988:			
Number of options	61,000	-0-	78,000
Average per share exercise price	$ 3.15	—	$ 3.59
Net value realized on exercise (market value less exercise price)	$265,100	-0-	$311,850
Outstanding on February 28, 1988	-0-	52,000(1)	52,000(1)(2)

(1) Mr. Panoff's employment with the Company has been subsequently terminated.

(2) Does not include options for an aggregate of 235,000 shares awarded to current executive officers since February 28, 1988.

Profit Sharing Plan

Effective June 1, 1984, the Company adopted a profit sharing plan (the "Profit Sharing Plan") for all employees who have completed a year of service and attained age 21. The Company may contribute annually to the Profit Sharing Plan an amount up to $1,000,000 out of the Company's net profits in the form of cash or Common Stock, such amount to be determined by the Board in its sole discretion. Individual accounts are established for each participant. Contributions and forfeitures are allocated to the accounts of participants who have completed a year of service and are employed by the Company on the last day of the plan year according to the proportion that each participant's total compensation from the Company for the plan year bears to the aggregate compensation of all participants for the plan year. The annual additions to the participant's account (including Company contributions, forfeitures and all participant contributions) for any plan year are limited to the lesser of $30,000 or 25% of the participant's compensation.

A participant vests in 30% of his account balance on the completion of three years vesting service, increasing by 10% for each year of vesting service thereafter until full vesting occurs after ten years. A participant will become 100% vested in his account on his reaching 65, his retirement due to disability, or his death. If a participant continues as an employee after reaching age 65, contributions will continue to be allocated to his account until his actual retirement. The nonvested portion of a terminated participant's account will be forfeited by him. By the terms of the Profit Sharing Plan, forfeitures are reallocated to the accounts of the remaining participants.

A participant may make voluntary contributions to a separate account, which shall not, when added to voluntary contributions made to any other plan of the Company, exceed 10% of the participant's base compensation.

An amended and restated Profit Sharing Plan was approved by the Board of Directors on June 15, 1987, effective as of December 31, 1986. The amended Plan is both a 401(k) plan and a profit-sharing plan and permits participants to make salary reduction contributions pursuant to section 401(k) of the Code up to 8% of total compensation, including bonuses, overtime and commissions, but excluding stock options and other fringe benefits. The Company intends, but is not required, to match 25% of all 401(k) amounts contributed, not to exceed the lower of a 6% 401(k) contribution (1.5% of wages) or $1,500. In the case of certain corporate officers, the sum of the regular Company contribution and the matching Company contribution in any one year may not exceed $7,500. The participant will at all times have a 100% nonforfeitable right to his voluntary contribution account and his 401(k) contribution account. The participant will have a 100% nonforfeitable right to his matching contribution account after completing at least two years of vesting service with the Company.

Benefit distributions under the Profit Sharing Plan will be in the form of lump sums. Death benefit distributions may be delayed up to five years following the participant's death. A participant who terminates employment prior to age 65, or due to disability or death, may receive his vested benefits on reaching 65, or his beneficiaries may receive benefits following his death. At the participant's request, the administrative committee, in its sole discretion, may allow the distribution of a terminated participant's vested benefits upon his termination from service. A year of service under the Profit Sharing Plan is a 12 consecutive month period during which an employee is credited with at least 1,000 hours of service. A year of vesting service under the Profit Sharing Plan is a plan year during which an employee is credited with at least 1,000 hours of service. Years of vesting service under the Profit Sharing Plan will include years of service credited under the terminated Money Purchase Plan. In 1986 the plan year was changed from a June 1—May 31 year to a January 1—December 31 year.

The Company's contributions to the Profit Sharing Plan, paid in cash, for the years ended March 1, 1987 and March 2, 1986 were $500,000 and $800,000, respectively. No contribution was made in fiscal 1988 based upon the Company's results of operations.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock, as of May 20, 1988 by (i) each person known by the Company to own beneficially more than 5% of the Company's outstanding Common Stock, (ii) each director of the Company, and (iii) all directors and officers of the Company as a group. The persons named in the table have sole voting and investment power with respect to all outstanding shares of Common Stock shown as beneficially owned by them, except as otherwise indicated.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
Oppenheimer-Palmieri Fund, L.P. 237 Park Avenue New York, New York 10017	2,926,500	9.5%
Entertainment Marketing, Incorporated 10310 Harwin Houston, Texas 77036	1,629,000(1)	5.3%
Victor H. Palmieri	—(2)	—
Elias Zinn	685,000(3)	2.2%
Michael Wilcoxson	—	—
John P. Harbin	10,000(4)	*
John A. Koskinen	—(2)	—
Frank E. Loy	10,000(4)	*
Peter A. Martosella, Jr.	—(2)	—
Lawrence C. McQuade	12,200(4)	*
Rex A. Sebastian	10,000(4)	*
John V. Thornton	20,000(4)	*
All officers and directors as a group (12 persons)	5,302,700(5)	17.1%

* Less than 1 %.

(1) Excludes an additional 685,000 shares owned by Elias Zinn, Chairman of the Board of EMI, in which EMI has a beneficial interest.

(2) Owns no shares personally, but may be deemed to be a representative of the Oppenheimer-Palmieri Fund.

(3) Excludes an additional 1,629,000 shares owned by EMI, as to which Mr. Zinn may be deemed to have a beneficial interest.

(4) Includes 10,000 shares issuable pursuant to an outside directors' warrant.

(5) For the purposes hereof only, attributes the shares owned by the Oppenheimer-Palmieri Fund to Messrs. Palmieri, Koskinen and Martosella, and the shares owned by EMI to Mr. Zinn.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Related Party Transactions with Current Management

The Company and The Palmieri Company, an affiliate of the Oppenheimer-Palmieri Fund with substantial experience in providing interim management assistance, entered into an agreement with respect to certain management services which have been provided by The Palmieri Company since

November 6, 1987, whereby The Palmieri Company undertook to provide the Company with such services through January 29,1988. The term of the agreement was subsequently extended through April 7, 1988. These services included preparation of an analysis of the financial position of the Company; development and implementation of operating systems and financial controls; the review and implementation of corrective action with respect to various other administrative matters; and the initiation of a strategic planning process for the Company's future operations. Pursuant to the terms of the agreement, The Palmieri Company was compensated on an hourly rate basis for the personnel it provided to the Company. The aggregate amount of such compensation was limited to $400,000 through January 29, 1988 and was limited to $250,000 for the extension period through April 7, 1988. The Company paid The Palmieri Company $465,000 pursuant to such arrangements during fiscal 1988. Peter A. Martosella, Jr., a director of the Company and a managing director of The Palmieri Company, directed the day-to-day management consulting effort for The Palmieri Company and continues to act as a consultant to the Company, as needed and as his schedule permits, without additional compensation other than the Company's continuing agreement to indemnify The Palmieri Company and Mr. Martosella for any liability arising from such services. Prominent companies managed by The Palmieri Company or its affiliates in recent years during restructuring or bankruptcy have included Baldwin-United Corporation and the Penn Central Corporation.

EMI, a distributor of computer systems and peripherals, consumer electronics and other products, and the Company have agreed upon conditions under which EMI will sell merchandise inventory to the Company. A credit line has been established by EMI in the amount of $11.0 million for the purchase of goods from EMI. Payment terms are net 60 days from shipment. The Company believes the terms of purchases from EMI are at least as favorable to the Company as those which could be obtained from independent third party vendors or suppliers. As of February 28, 1988, $9.2 million was outstanding under the credit line for inventory purchases, and aggregate purchase from EMI during fiscal 1988 totalled approximately $11.7 million.

The Oppenheimer-Palmieri Fund and EMI incurred aggregate expenses in connection with their proxy contest for the November 1987 annual stockholders' meeting, for which, as disclosed in their proxy statement, they have sought reimbursement of approximately $2.5 million from the Company. A committee of disinterested directors has approved reimbursement of such expenses as are determined by such committee and the Board to have been related to or incurred in connection with the solicitation of proxies, subject to the approval of stockholders at the next annual or special meeting and the Board's review of the Company's financial condition and ability to reimburse such expenses at the time of submission to stockholders.

Leases

The Company leases its Union, New Jersey, store from Eddie Antar and Sam Antar. The lease expires on December 31, 1988, and provides for a current annual rental of $124,000. Rent of $163,000 was paid under this lease and certain other leases to Eddie Antar and/or Sam Antar during fiscal 1988. Eddie Antar has advised the Company that he does not intend to permit the Company to renew this lease.

The Company leases its East 86th Street store in New York City from the father-in-law of Sam E. Antar. The lease expires on April 30, 1994, and provides for an annual rental of $315,000 for the year ending April 30, 1988, with increases of $10,000 per year thereafter. Rent for the year ended in 1988 totaled $312,536 under that lease.

Indebtedness of Management

Prior to the change in management, the Company made loans to certain of its officers for various personal reasons, including the exercise of stock options. The maturity date of each of such loans was extended by former management in October 1987. With one exception, no payments of either principal or interest are payable until maturity. On November 6, 1987, new management filed suit to compel immediate repayment of these loans. See "LEGAL PROCEEDINGS."

The notes for which the Company is currently seeking repayment are as follows:

In April 1987, July 1987, and September 1987, the Company loaned $40,000, $35,000 and $10,000, respectively, to Edmond Levy. Such loans were payable on demand and bore interest at annual rates of 9%, 9½% and 9%, respectively. In October 1987, the three loans to Mr. Levy were consolidated into a single note in the amount of $85,000, payable October 15, 1988, with interest at 9% per annum.

In February 1987, a July 1986 promissory note from David V. Panoff payable to the Company in the principal amount of $73,000, which bore interest at a rate of 9% per annum was exchanged for a note in the same principal amount which bore interest at the rate of 8½% per annum. Principal on the February 1987, note was to be paid at the rate of $500 per week and all interest on such note was to be paid at maturity. In October 1987, the Company converted the remaining $66,995 balance on Mr. Panoff's February 1987, note into a five-year note bearing interest at 8½% per annum and providing for equal monthly installments of principal and interest.

In May 1987, the Company loaned $100,000 to Sam E. Antar for a period of two months, which term was extended upon the original due date. Such note bore interest at the rate of 9% per annum. In July 1987, the Company loaned an additional $50,000 to Sam E. Antar at an interest rate of 10% per annum, payable on demand. Also in July 1987, August 1987, and September 1987, the Company made cash advances to Sam E. Antar in the amounts of $25,000, $30,000 and $42,000, respectively. In October 1987, the $173,346 balance of Sam E. Antar's indebtedness to the Company was consolidated into a note due November 13, 1988, bearing interest at 9% per annum.

In October 1987, loans made in June 1986, to Solomon E. Antar were consolidated into a note in the amount of $125,430 payable December 12, 1988, and bearing interest at the rate of 9% per annum, and a loan to Solomon E. Antar made in February 1987, in the amount of $78,271 was converted into a note due March 12, 1989 at an interest rate of 8½% per annum. In July 1987, the Company made cash advances to Solomon E. Antar in the amounts of $15,000 and $100,000 which were consolidated in October 1987, into a note in the amount of $115,000 payable July 15, 1989, at an interest rate of 9% per annum.

Also in October 1987, a loan in the amount of $98,800 to David Pardo, originally made in April 1986, was forgiven. At the time such loan was originally made, Mr. Pardo was an executive officer of the Company.

Other Related Party Transactions

Benel Distributors, Ltd. ("Benel"), a New York corporation wholly-owned by Ellen Kuszer, Eddie Antar's sister, and her husband, Ben Kuszer, sold prerecorded audio and video cassettes and records in each Crazy Eddie store (except the Edison, New Jersey, store) pursuant to license agreements entered into between the wholly-owned subsidiary of the Company operating the particular Crazy Eddie store and a wholly-owned subsidiary of Benel operating the concession in such store. License fees paid by Benel aggregated $736,054 for the fiscal year ended February 28, 1988.

The Company also leased to Benel approximately 35,000 square feet of space in its corporate headquarters in Edison, New Jersey, for which rent of $17,800 was paid during fiscal 1988.

On July 13, 1987, however, following the termination of unsuccessful negotiations for the acquisition of Benel by the Company, the Company announced that it had terminated its license agreements with Benel. At the time, Benel was approximately $400,000 in arrears in its payments of license fees to the Company. On that date, Benel filed a petition with the United States Bankruptcy

Court, District of New Jersey, seeking protection under Chapter 11 of the United States Bankruptcy Code and seeking to prevent termination of the licenses. By agreement, the licenses have now been terminated, although certain claims for damages by Benel are still pending. See "LEGAL PROCEEDINGS."

The Company has agreed to pay approximately $393,000 to suppliers of Benel who asserted that the Company was responsible, as a guarantor, for payment of amounts owed by Benel to such suppliers.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) 1. The financial statements listed in the accompanying Index to Financial Statements are filed as part of this report.

(a) 2. The financial statement schedules included beginning on page S-1 are as follows:

Schedule I—Marketable Securities and Other Investments

Schedule II—Amounts Receivable from Related Parties

Schedule IX—Short-Term Borrowings

(a) 3. The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this report and such Exhibit Index is hereby incorporated by reference.

(b) On December 29, 1987, the Company filed a report on Form 8-K, reporting in Item 4 thereof, "Changes in Registrant's Certifying Accountants," the engagement of Touche Ross & Co. on December 14, 1987 to replace Peat Marwick Main & Co. as the Company's principal independent certified public accountants to audit the Company's financial statements for the fiscal year ended February 28, 1988.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Edison, State of New Jersey, on the 24th day of May, 1988.

CRAZY EDDIE, INC.

By: /s/ David L. Yankey

DAVID L. YANKEY
Executive Vice President—Finance,
Treasurer and Chief Financial and
Accounting Officer

POWER OF ATTORNEY

The undersigned directors and officers of CRAZY EDDIE, INC. hereby constitute and appoint David Yankey and Elias Zinn, or either of them, our true and lawful attorneys-in-fact and agents, to execute in our name and behalf in the capacities indicated below the annual report on Form 10-K for CRAZY EDDIE, INC. and any amendments thereto with the Securities and Exchange Commission and hereby ratify and confirm all such attorneys-in-fact and agents, or either of them, shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signatures	Title	Date
/s/ Victor H. Palmieri VICTOR H. PALMIERI	Director and Chairman of the Board	May 23, 1988
/s/ Elias Zinn ELIAS ZINN	President, Chief Executive Officer and Director	May 24, 1988
/s/ Michael Wilcoxson MICHAEL WILCOXSON	Director, Executive Vice President-Operations	May 24, 1988
/s/ David L. Yankey DAVID L. YANKEY	Executive Vice President-Finance, Treasurer and Chief Financial and Accounting Officer	May 24, 1988
/s/ John P. Harbin JOHN P. HARBIN	Director	May 24, 1988
/s/ John A. Koskinen JOHN A. KOSKINEN	Director	May 27, 1988
/s/ Frank E. Loy FRANK E. LOY	Director	May 27, 1988
/s/ Peter A. Martosella, Jr. PETER A. MARTOSELLA, JR.	Director	May 24, 1988
/s/ Lawrence C. McQuade LAWRENCE C. McQUADE	Director	May 27, 1988
/s/ Rex A. Sebastian REX A. SEBASTIAN	Director	May 27, 1988
/s/ John V. Thornton JOHN V. THORNTON	Director	May 27, 1988

CRAZY EDDIE, INC. AND SUBSIDIARIES

REPORT ON EXAMINATION OF
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 1988 AND
MARCH 1, 1987

Item 8. FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Independent auditors' report	F-2
Consolidated balance sheets February 28, 1988 and March 1, 1987	F-3
Consolidated statements of operations Years ended February 28, 1988, March 1, 1987 and March 2, 1986	F-4
Consolidated statements of changes in (deficiency in net assets) stockholders' equity Years ended February 28, 1988, March 1, 1987 and March 2, 1986	F-5
Consolidated statements of changes in financial position Years ended February 28, 1988, March 1, 1987 and March 2, 1986	F-6
Notes to consolidated financial statements	F-7 — F-19

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Crazy Eddie, Inc.
Edison, New Jersey

We have audited the accompanying consolidated balance sheet of Crazy Eddie, Inc. and subsidiaries as of February 28, 1988, and were engaged to audit the related consolidated statement of operations, changes in (deficiency in net assets) stockholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Crazy Eddie, Inc. and subsidiaries as of March 1, 1987 were audited by other auditors, whose report dated April 28, 1987 (except for Note 15 which is as of June 12, 1987), expressed an unqualified opinion on those statements. However, as explained in Note 2, their report is not included herein.

During fiscal 1988, new management of the Company recorded certain significant charges to operations, portions of which it believes relate to prior periods. It is impractical for the Company to determine the extent to which these charges relate to prior periods and the extent to which generally accepted accounting principles were applied in the generation of financial statements for periods prior to November 29, 1987 and, therefore, management is unable to represent their responsibility for financial statements prior to November 29, 1987. Accordingly, we were unable to apply generally accepted auditing standards with respect thereto and the scope of our audit work was not sufficient to enable us to express, and we do not express, an opinion on the consolidated statement of operations, changes in (deficiency in assets) stockholders' equity, and changes in financial position for the year ended February 28, 1988.

We conducted our audit of the consolidated balance sheet in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of Crazy Eddie, Inc. and subsidiaries as of February 28, 1988, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered a significant loss from operations, has a deficiency in net assets, and is involved in significant litigation which raise substantial doubt about its ability to continue as a going concern. Management's plans to address these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Touche Ross & Co.
Certified Public Accountants

New York, New York
May 31, 1988

CRAZY EDDIE, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

ASSETS

	February 28, 1988	March 1, 1987 (Not reported on herein—Note 2)
CURRENT ASSETS:		
Cash	$ 5,100	$ 9,347
Short-term investments (Note 7)	9,846	121,957
Accounts receivable (Note 7)	3,529	6,346
Merchandise inventories (Note 7)	59,444	109,072
Income tax refunds receivable (Note 7)	32,077	4,500
Prepaid expenses and other current assets	2,846	6,613
Deferred income taxes	—	4,026
TOTAL CURRENT ASSETS	112,842	261,861
DEFERRED INCOME TAXES	—	1,668
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation and amortization of $8,910 and $4,952, respectively (Note 7)	32,949	26,523
OTHER ASSETS	3,008	4,806
	$148,799	$294,858

LIABILITIES AND (DEFICIENCY IN NET ASSETS) STOCKHOLDERS' EQUITY

	February 28, 1988	March 1, 1987
CURRENT LIABILITIES:		
Short-term debt	$ 24,500	$ 49,286
Current maturities of long-term debt and capitalized lease obligations	153	285
Accounts payable	42,752	50,022
Unearned service contract revenue	3,861	3,641
Accrued liabilities	9,332	5,593
TOTAL CURRENT LIABILITIES	80,598	108,827
LONG-TERM DEBT AND CAPITALIZED LEASE OBLIGATIONS	632	8,459
CONVERTIBLE SUBORDINATED DEBENTURES	80,975	80,975
UNEARNED SERVICE CONTRACT REVENUE	5,332	3,337
COMMITMENTS AND CONTINGENCIES (Note 15)		
(DEFICIENCY IN NET ASSETS) STOCKHOLDERS' EQUITY:		
Preferred stock, $1.00 par value:		
Series A:		
Authorized, 500,000 shares		
Issued, none	—	—
Series B:		
Authorized, 4,500,000 shares		
Issued, 180 shares, $100 stated value	18	—
Common stock, $.01 par value:		
Authorized, 50,000,000 shares		
Issued and outstanding, 31,456,980 shares and 31,337,680 shares, respectively	315	313
Additional paid-in capital	58,630	57,678
(Deficit) retained earnings	(73,829)	35,269
Less treasury stock, at cost, 500,000 shares	(3,872)	—
(DEFICIENCY IN NET ASSETS) STOCKHOLDERS' EQUITY	(18,738)	93,260
	$148,799	$294,858

See notes to consolidated financial statements

CRAZY EDDIE, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year ended February 28, 1988	March 1, 1987	March 2, 1986
		(Not reported on herein—Note 2)	
Net sales	$ 315,539	$ 352,523	$ 262,268
Costs and expenses:			
Cost of goods sold, including buying and warehousing costs	346,791	272,255	194,371
Selling, general and administrative expenses	96,195	60,329	43,034
Interest expense (income), net	5,972	(658)	(1,649)
	448,958	331,926	235,756
(Loss) earnings before (benefit) provision for income taxes	(133,419)	20,597	26,512
(Benefit) provision for income taxes	(24,321)	10,001	13,268
NET (LOSS) EARNINGS	$(109,098)	$ 10,596	$ 13,244
(Loss) earnings per share of common stock	$ (3.52)	$ .34	$ .48
Weighted average number of shares outstanding	30,957	31,204	27,664

See notes to consolidated financial statements

CRAZY EDDIE, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIENCY IN NET ASSETS) STOCKHOLDERS' EQUITY
(In thousands, except share amounts)
(Not reported on herein—Note 2)

	Preferred stock	Common stock	Additional paid-in capital	(Deficit) retained earnings	Treasury stock	Total
Balance, March 3, 1985	$—	$268	$12,164	$ 11,429	$ —	$ 23,861
Net earnings	—	—	—	13,244	—	13,244
Issuance of 1,210,842 common shares	—	12	5,504	—	—	5,516
Balance, March 2, 1986	—	280	17,668	24,673	—	42,621
Net earnings	—	—	—	10,596	—	10,596
Issuance of 3,326,838 common shares	—	33	40,010	—	—	40,043
Balance, March 1, 1987	—	313	57,678	35,269	—	93,260
Net loss	—	—	—	(109,098)	—	(109,098)
Issuance of 180 shares of preferred stock	18	—	—	—	—	18
Issuance of 119,300 common shares under the stock option plan	—	2	952	—	—	954
Repurchase of 500,000 shares of treasury stock	—	—	—	—	(3,872)	(3,872)
Balance, February 28, 1988	$ 18	$315	$58,630	$ (73,829)	$(3,872)	$ (18,738)

See notes to consolidated financial statements

CRAZY EDDIE, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(In thousands)

	Year ended February 28, 1988	March 1, 1987	March 2, 1986
		(Not reported on herein—Note 2)	
OPERATING TRANSACTIONS:			
Net (loss) earnings	$ (109,098)	$ 10,596	$ 13,244
Depreciation and amortization	4,305	2,480	1,044
Restricted cash	—	3,356	3,702
Acquisition of property, plant and equipment	(10,581)	(22,042)	(4,986)
Construction in progress	—	6,253	(5,099)
Loss on disposal of equipment	34	304	506
Other assets	1,628	(1,589)	(203)
Unearned service contract revenue	1,995	1,508	1,194
Deferred income taxes	1,668	2,310	(3,978)
Working capital:			
Accounts receivable	2,817	(4,100)	(371)
Merchandise inventories	49,628	(49,208)	(33,321)
Income tax refunds receivable	(27,577)	(4,500)	—
Prepaid expenses and other current assets	3,803	(4,250)	(853)
Deferred income taxes	4,026	(4,026)	—
Income taxes payable	—	(11,071)	5,051
Accounts payable and accrued liabilities	(3,531)	(2,163)	31,987
Unearned service contract revenue	220	(55)	2,523
Funds (used in) provided by operating transactions	(80,663)	(76,197)	10,440
FINANCING TRANSACTIONS:			
Issuance of:			
Common stock, net	954	40,043	5,516
Preferred stock	18	—	—
Convertible subordinated debentures	—	81,000	—
Cost of debt issuance	(50)	(1,728)	—
Conversion of convertible subordinated debentures	—	(25)	—
Acquisition of treasury stock	(3,872)	—	—
Increases (reductions) in:			
Short-term debt and current maturities of long-term debt and capitalized lease obligations	(24,918)	47,317	1,831
Additions to long-term debt	—	8,354	700
Repayment of long-term debt and capitalized lease obligations	(7,827)	(7,596)	(624)
Funds (used in) provided by financing transactions	(35,695)	167,365	7,423
(DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS	(116,358)	91,168	17,863
CASH AND SHORT-TERM INVESTMENTS, beginning of year	131,304	40,136	22,273
CASH AND SHORT-TERM INVESTMENTS, end of year	$ 14,946	$ 131,304	$ 40,136

See notes to consolidated financial statements

CRAZY EDDIE, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 1988 AND
MARCH 1, 1987 (not reported on herein—Note 2)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

The accompanying financial statements include the accounts of Crazy Eddie, Inc. and its subsidiaries (collectively referred to as "the Company"), all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

b. Short-term investments

Investments, which are principally marketable securities, are stated at cost plus accrued interest, which approximates market value.

c. Merchandise inventories

Merchandise inventories are stated at the lower of weighted average cost on a first-in, first-out (FIFO) basis, or market.

In accordance with a practice established by previous management, a portion of the merchandise inventory has been purchased from suppliers under credit terms which grant the creditor a security interest in the inventory.

d. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets or, in the case of leasehold improvements, over the shorter of the estimated useful lives or lease periods. The estimated useful lives for depreciation of the principal properties are: buildings and improvements, 10 to 40 years; office, warehouse and other equipment, 3 to 5 years; and furniture and fixtures, 5 to 10 years. Capitalized leases are amortized over the respective lease terms.

e. Unearned service contract revenue

The Company sells product service contracts covering periods extending beyond the normal manufacturers' warranty period, usually with terms of coverage including the manufacturers' warranty period, of between 12 and 96 months. The Company recognizes revenue from the sales of these contracts over the life of the contracts in a manner that matches revenues with expected costs. The costs of providing such services are charged to operations as incurred. Deferred service contract revenue is classified as long-term when the rendering of service is expected to occur after one year.

f. Income taxes

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

Deferred income taxes are provided for the tax effects of timing differences between income tax and financial statement reporting, primarily with respect to unearned service contract revenue, merchandise inventories, and the granting and exercise of nonqualified stock options.

g. Preopening expenses

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

h. (Loss) earnings per share

(Loss) earnings per share of common stock are computed by dividing the net (loss) earnings by the weighted average number of shares of common stock after giving retroactive effect to the two-for-one stock splits effected in the form of dividends on both July 31, 1985 and September 30, 1986. Convertible subordinated debentures and preferred stock, although common stock equivalents, are antidilutive. The assumed exercise of outstanding stock options was antidilutive for the year ended February 28, 1988 and did not result in material dilution in the prior years.

i. Reclassifications

Certain reclassifications have been made to the 1987 and 1986 financial statements to conform to classifications adopted in fiscal 1988.

2. BASIS OF PRESENTATION

a. Prior financial statements

As discussed in Note 3, new management of the Company recorded significant charges to operations during fiscal 1988 which, in the opinion of new management, relate to prior periods. Accordingly, new management believes that portions of the Company's financial statements for periods prior to November 29, 1987 are inaccurate and may not be relied upon. The Company's financial statements for 1987 and 1986 were audited by other independent auditors, and their unqualified report thereon was included in the Company's annual report for the year ended March 1, 1987. The former auditors will not provide the Company with a currently signed report relating to the 1987 and 1986 financial statements because the Company's present independent auditors are unable to give any assurances regarding the accuracy of the prior years' financial statements that they require to reissue their report. Accordingly, the 1987 and 1986 financial statements are not reported on herein.

b. Going concern

The 1988 consolidated financial statements of the Company have been prepared assuming that the Company will continue as a going concern, notwithstanding the net loss of $109,098,000 reported during the 1988 fiscal year leading to the current deficiency in net assets of $18,738,000. The majority of the loss reported in fiscal 1988 arose prior to new management taking over, including the write-off of inventory and the accounts payable adjustments discussed in Note 3. Additionally, new management believes that the loss in the fourth quarter was substantially caused by the adverse after effects of the activities of prior management, which new management believes have been addressed.

New management projects that the Company will continue to sustain operating losses for the first three quarters of fiscal 1989. However, the losses are projected to be substantially less in the aggregate then those recorded in the first three quarters of fiscal 1988. Accordingly, management believes that its current operating plan, based on current sales trends and expense levels combined with financing arrangements (Note 5) will result in adequate cash flow availability to sustain operations until profitability is attained.

As part of its operating plan, management has taken initiatives designed to improve and maintain relationships with its vendors. The Company initiated an exchange offer (the "Exchange Offer") of its 6% convertible subordinated debentures for a new convertible subordinated debenture (Note 8). If the Exchange Offer is consummated, the Company will record an accounting gain which should result in positive stockholders' equity.

As discussed in Note 15, the Company is involved in significant litigation and investigation. Management believes that the results of these actions will not have a material adverse effect on the financial position of the Company.

Notwithstanding management's beliefs, the Company cannot be assured that its operating plan will be successful. The current plan could be adversely affected by various factors including the failure of the Exchange Offer, the Company's ability to obtain financing as planned, or an unanticipated adverse outcome of litigation.

3. CORPORATE RESTRUCTURING

In May 1987, the Board of Directors of the Company received an offer from First City Capital Corporation and Eddie Antar, then Chairman of the Board (the "Antar Group"), to purchase all of the outstanding common stock of the Company, pursuant to a negotiated merger transaction in which stockholders of the Company would receive $7.00 per share in cash.

In June 1987, the Board of Directors of the Company received an unsolicited offer from Entertainment Marketing, Inc. ("EMI") to purchase all of the outstanding common stock of the Company, pursuant to a negotiated merger transaction in which stockholders of the Company would receive $8.00 per share in cash. Following releases of information concerning the deterioration of the Company's operations and financial condition, and dissatisfaction with the Company's cooperation, EMI withdrew its offer in July 1987. The Antar Group's offer was withdrawn in August 1987.

Subsequent to the withdrawal of its offer, EMI entered into an agreement with the Oppenheimer-Palmieri Fund, pursuant to which EMI and the Oppenheimer-Palmieri Fund, jointly acting as the Committee to Restore Stockholder Value (the "Proxy Committee"), agreed to propose and solicit proxies for nominees for election to the Company's Board of Directors at the 1987 annual meeting. In connection therewith, EMI commenced and prevailed in actions against the Company in Delaware Chancery Court to compel the calling of the annual meeting and to obtain access to the Company's shareholder lists.

EMI, a wholesale distributor of consumer electronics, computer peripherals and other products, is a public company listed on the American Stock Exchange. EMI and its chairman own an aggregate of 2,314,000 shares, representing 7.50% of all common stock outstanding.

The Oppenheimer-Palmieri Fund is a private limited partnership which was established in May 1985 to enhance value through the active management of investments in companies with unrealized potential. Investment candidates range from profitable but underperforming enterprises, to turnarounds which may not have achieved profitability, to workouts and bankruptcies. The Oppenheimer-Palmieri Fund owns 2,926,500 shares, representing 9.45% of all common stock outstanding.

At the November 6, 1987 annual meeting, the Company's stockholders elected the full slate of new directors proposed by the Proxy Committee. At a meeting of the new Board of Directors held immediately thereafter, almost all of the Company's officers were removed and new officers affiliated with EMI or the Oppenheimer-Palmieri Fund were appointed.

Subsequent to the annual meeting, new management commenced an extensive review of the Company's assets, liabilities and operations. This review disclosed an inventory shortfall of approximately $65.0 million and an understatement accounts payable of approximately $4.8 million. These adjustments were included in cost of goods sold during the third quarter of 1988. The completion of new management's evaluation of the Company's accounts and asset carrying values has required additional adjustments, including an additional $5.0 million in understated accounts payable and a reserve of approximately $4.2 million for obsolete, slow-moving and damaged inventory.

New management has implemented plans to significantly change the Company's organizational structure in order to reduce overhead and make its operation more efficient. As a result, a substantial number of employees have been terminated. During fiscal 1988, the Company provided approximately $2.8 million for the reorganization, related severance costs, and reserves for certain amounts that had been advanced by former management to terminated employees.

In addition, the Company accrued $2.5 million for proxy expenses incurred by the Proxy Committee.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of (in thousands):

	February 28, 1988	March 1, 1987
Land	$ 925	$ 925
Buildings and improvements	10,941	10,708
Office, warehouse and other equipment	13,699	8,857
Furniture and fixtures	2,895	2,653
Leasehold improvements	12,957	7,890
	41,417	31,033
Less accumulated depreciation and amortization	8,780	4,910
	32,637	26,123
Capitalized leases, net of amortization of $130 and $42, respectively	312	400
	$32,949	$26,523

5. SHORT-TERM DEBT

On October 7, 1987, the Company entered into an agreement with a financial institution for a $7,500,000 loan payable on demand and secured by a first mortgage lien on the Company's headquarters in Edison, New Jersey, $2,000,000 of U.S. Treasury Notes due December 31, 1990, approximately $5.5 million of the bank's commercial paper and $500,000 of certificates of deposits. The loan bears interest at prime plus ¼%. At February 28, 1988, the interest rate under this agreement was 9%.

On November 18, 1987, the Company entered into an agreement with a financial institution, establishing a $20,000,000 line of credit secured by a portion of the Company's inventory, accounts receivable and pending federal income tax refunds. This line was subsequently renegotiated to $30,000,000. The amounts borrowed bear interest at prime plus 2% per annum and are payable on demand or, if no demand is made by the financial institution, on June 30, 1988. At February 28, 1988, the Company had $17,000,000 outstanding under this line, at an interest rate of 10¾%.

On May 20, 1988, the Company obtained a letter of commitment from the financial institution to extend the aforementioned line of credit through June 30, 1989, subject to the execution of a definitive loan agreement. The amount of available funds under the line of credit is dependent upon the level of the Company's merchandise inventories, with maximum available borrowings of $21,500,000, at an interest rate of prime plus 2%. The line of credit will be collateralized by a portion of the Company's merchandise inventories, accounts receivable, equipment, a second lien on its headquarters and $1.5 million of cash and certificates of deposit. The conditions of a definitive loan agreement include agreement on certain financial covenants which are compatible with the Company's current operating plan for the 1989 fiscal year.

The maximum short-term borrowings outstanding at any month-end during the years ended February 28, 1988 and March 1, 1987 were $58,000,000 and $49,400,000, respectively. Average borrowings outstanding were $40,483,000 and $11,739,000. During fiscal 1988, the Company repaid commercial paper borrowings, which bore interest at rates between 6.65% and 6.85% of

$33,886,000 and a short-term credit facility, which bore interest at rates between 6.75% and 7.50% of $15,400,000.

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	February 28, 1988	March 1, 1987
Accrued proxy fees	$2,500	$ —
Accrued taxes, other than income taxes	1,964	2,215
Accrued interest	1,013	1,013
Accrued compensation	863	1,042
Other	2,992	1,323
	$9,332	$5,593

7. LONG-TERM DEBT AND CAPITALIZED LEASE OBLIGATIONS

Long-term debt and capitalized lease obligations consist of the following (in thousands):

	February 28, 1988	March 1, 1987
Note payable, with interest at 7.6% per annum	$—	$7,680
Note payable in connection with purchase of lease rights, payable in monthly installments through November 1993	443	550
Capitalized lease obligations	342	514
	785	8,744
Less current maturities of long-term debt and capitalized lease obligations	153	285
	$632	$8,459

Future maturities of long-term debt and capitalized lease obligations are as follows (in thousands):

Year	Amount
1989	$153
1990	166
1991	174
1992	155
1993 through 1994	137
	$785

The net book value of assets collateralized amounted to approximately $128,237,000 at February 28, 1988 (Note 5).

8. CONVERTIBLE SUBORDINATED DEBENTURES

On July 1, 1986, the Company issued $81 million principal amount of 6% convertible subordinated debentures, due June 15, 2011 (the "Debentures"). Each Debenture is convertible, at any time prior to maturity unless previously redeemed, into shares of the Company's common stock, at a conversion price of $23.125 per share (as adjusted to give effect to the stock split effected in the form of a dividend), subject to adjustment in certain events. The Debentures are subordinated in payment to all existing and future senior indebtedness, as defined in the indenture.

The Debentures provide for annual sinking fund payments, beginning June 15, 1997, calculated to retire 70% of the principal amount thereof prior to maturity. The Debentures are redeemable in whole or in part at any time at the Company's option, at an initial redemption price of 106% of the principal amount prior to June 15, 1987, and thereafter at prices declining annually to 100% of the principal amount on or after June 15, 1996, except that the Debentures may not be so redeemed before June 15, 1988 unless the reported closing price of the common stock shall have equaled or exceeded 140% of the effective conversion price per share for any 20 trading days within a period of 30 consecutive trading days ending within 15 business days prior to notice of such redemption.

In February 1987, a Debenture holder exercised the right of conversion of $25,000 of Debentures and acquired 1,080 shares of common stock.

On May 24, 1988, the Company initiated an offer to exchange its 6% convertible subordinated debentures for a new convertible subordinated debenture. The principal purpose of the Exchange Offer is to increase the Company's stockholders' equity for financial accounting purposes and, consequently, to improve the Company's relationships with certain vendors, lenders and others who may require that the Company's financial statements reflect what they regard as adequate stockholders' equity as a condition to doing business with the Company.

9. (DEFICIENCY IN NET ASSETS) STOCKHOLDERS' EQUITY

On June 26, 1985, the Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend, payable on July 31, 1985 to stockholders of record on July 12, 1985.

On August 27, 1986, the Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend (the "Stock Dividend") payable on September 30, 1986 to stockholders of record on September 9, 1986.

In connection with the Company's initial public offering on September 20, 1984, the managing underwriter purchased warrants to acquire an aggregate of 300,000 shares of common stock at a price of $2.40 per share for $.25 each. During the year ended March 1, 1987, the warrants to acquire all 300,000 shares of common stock were exercised.

On April 10, 1987, the Company's Board of Directors declared a dividend distribution on each share of common stock of one right ("Right") to purchase one one-hundredth of a share of Series A preferred stock, par value $1.00 per share, at a purchase price of $42.00, subject to adjustment. The terms of the Rights and the Series A preferred stock are set forth in a rights agreement, dated as of April 10, 1987, between the Company and First RepublicBank-Dallas, National Association, as rights agent (the "Shareholder Rights Plan"). A lawsuit has been brought seeking, among other things, to enjoin the Company from enforcing or otherwise invoking its Shareholder Rights Plan and to direct the Company to redeem the Rights.

In connection with the exercise of nonqualified stock options, $1,181,000 and $725,000, representing tax benefits realized by the Company, were credited to additional paid-in capital during the years ended March 1, 1987 and March 2, 1986, respectively.

During the first quarter of fiscal 1988, the Company repurchased 500,000 shares of the Company's common stock at an aggregate cost of $3,871,875. The shares purchased are held in the Company's treasury and will be available for issuance upon exercise of stock options, for possible future acquisitions and for possible resale in future public or private offerings.

In October 1987, the Company issued 180 shares of Series B 12½% cumulative, redeemable, convertible preferred stock, $1.00 par value, for $18,000. The shares have a value of $100 each upon liquidation or redemption and for purposes of determining dividends. The shares are convertible at a conversion price of $5.00 per share of common stock.

On November 6, 1987, the Company awarded warrants for the purchase of 10,000 shares of common stock to each of its five outside directors, exercisable at $3.00 per share, the closing sale price on that date.

10. STOCK OPTION PLAN

On August 28, 1984, the Company adopted the 1984 stock option plan (the "1984 Plan" or the "Option Plan") as amended, which provides for the granting to key employees of both incentive and nonqualified stock options for a maximum of 2,000,000 shares of common stock (as adjusted to give effect to the stock splits effected in the form of a dividend). The exercise price of any incentive stock option granted under the 1984 Plan 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 granted under the 1984 Plan shall be not less than 85% of the fair market value of the shares subject to 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 (the "Committee"), consisting of three persons appointed by the Board of Directors, subject to the requirement that no option may be exercisable more than 10 years after the date of grant.

The changes in the Option Plan were as follows:

	Number of Shares		
	Authorized	Granted	Available
Balance, March 3, 1985	1,000	528	472
Granted	—	422	(422)
Exercised	(234)	(234)	—
Balance, March 2, 1986	766	716	50
Authorized	1,000	—	1,000
Granted	—	1,474	(1,474)
Exercised	(213)	(213)	—
Cancelled	—	(764)	764
Balance, March 1, 1987	1,553	1,213	340
Exercised	(119)	(119)	—
Cancelled	—	(691)	691
Balance, February 28, 1988	1,434	403	1,031

During the period ended March 3, 1985, 528,400 nonqualified options were granted at $4.14 per share and expire September 21, 1994. During the year ended March 2, 1986, 44,000 incentive stock options were granted at $5.81 per share and 377,500 nonqualified stock options were granted at $4.94 per share. Options subject to either of these grants expire October 7, 1995.

During the year ended March 1, 1987, 30,000 and 5,000 incentive stock options were granted at $17.57 and $18.19 per share, respectively. Nonqualified stock options of 465,100, 150,000, 85,200 and 20,000 were granted at exercise prices of $17.57, $17.69, $18.19 and $19.13, respectively. On January 28, 1987, the Company cancelled 718,650 of the above and reissued 718,650 nonqualified stock options at an exercise price of $8.44. Options subject to these grants expire January 28, 1997.

No stock options or stock appreciation rights were granted by the Company under the Option Plan during the fiscal year ended February 28, 1988. However, in order to improve the morale of key employees, the Company in March 1988 offered optionees nonqualified stock options under the Option Plan at an exercise price of $1.81 upon the condition that employees with existing outstanding unexercised options surrender them for cancellation. Options to acquire 1,223,900 shares of common stock have been granted pursuant to this offer as of April 1988, and options for approximately 237,700 shares have been cancelled pursuant thereto. Options for 1,933,050 shares are either outstanding under the Option Plan at May 31, 1988 or have been previously exercised.

11. INTEREST EXPENSE (INCOME), NET

Interest expense (income), net consists of the following (in thousands):

	Year ended February 28, 1988	March 1, 1987	March 2, 1986
Interest expense	$ 9,148	$ 5,233	$ 820
Interest income	(4,382)	(5,891)	(2,469)
Loss on sale of short-term investments	1,206	—	—
	$ 5,972	$ (658)	$(1,649)

12. TAXES

Income tax (benefit) provision consists of (in thousands):

	Year ended February 28, 1988	March 1, 1987	March 2, 1986
Current:			
Federal	$(24,844)	$ 8,118	$12,665
State	(5,171)	2,208	4,125
Deferred	5,694	(325)	(3,522)
	$(24,321)	$10,001	$13,268

The differences between the U.S. statutory federal income tax rate and the effective income tax rate as reflected in the accompanying consolidated statements of operations are:

	Year ended February 28, 1988		March 1, 1987		March 2, 1986	
	Amount	% of pretax loss	Amount	% of pretax earnings	Amount	% of pretax earnings
Statutory federal (benefit) income tax rate	$(50,699)	(38.0)%	$ 9,474	46.0%	$12,196	46.0%
State and local (benefit) taxes	(3,331)	(2.5)	1,214	5.9	2,228	8.4
Tax effect of limitation of net operating loss carryback	23,890	17.9	—	—	—	—
Reversal of previously established deferred tax charges	5,694	4.3	—	—	—	—
Other	125	.1	(687)	(3.3)	(1,156)	(4.4)
	$(24,321)	(18.2)%	$10,001	48.6%	$13,268	50.0%

The income tax benefit recognized reflects the carryback of losses resulting from the loss incurred in the 1988 fiscal year. At February 28, 1988, the Company had a net operating loss carryforward of approximately $73,747,000 for financial reporting purposes. The Company is reviewing its net operating loss carryforward for tax reporting purposes (expires 2003) which it expects will be slightly less than the carryforward for financial reporting purposes.

The Company has claimed and received tax refunds of $28.3 million and $1.8 million from the Internal Revenue Service and state and local governments and anticipates receiving additional state and local income tax refunds of approximately $5.9 million based upon net operating loss carryback availability, overpayments for fiscal 1987 and prepayments in fiscal 1988 (Note 5).

As a result of the net operating loss during fiscal 1988, the Company adjusted the provision for income taxes based upon an evaluation of the future realization of existing deferred tax charges, which will be reinstated upon attainment of future profitable operations and utilization of the net operating loss carryforward. Deferred income taxes result primarily from timing differences between financial reporting and income tax reporting with respect to unearned service contract revenue, cost or market adjustment for merchandise inventories and the granting and exercise of nonqualified stock options.

The Internal Revenue Service is presently conducting an examination of the Company's federal income tax returns for the fiscal years ended March 1, 1987, March 2, 1986 and March 3, 1985 and has informed the Company that it will also examine the return for the fiscal year ended February 28, 1988. Due to the significant losses incurred in the 1988 fiscal year, any adjustment arising from these examinations would be applied against the Company's net operating loss carryforward and, as a result, should not adversely affect the financial position of the Company.

13. CAPITAL ACCUMULATION PLAN AND TRUST

On December 31, 1986, the Company adopted a capital accumulation plan (the "Plan") covering all full-time employees (except security guards) who have completed 12 consecutive months of service and who have attained age 21. All participants in the Company's former profit-sharing plan, which was effective as of June 1, 1984, participate in the Plan.

The Plan is both a 401(k) plan and a profit-sharing plan. The Company intends, but is not required, to match 25% of all 401(k) amounts contributed, not to exceed the lower of a 6% 401(k) contribution (1.5% of wages) or $1,500. In addition, if profits permit, the Company intends to contribute to the Plan amounts as determined by the Board of Directors (the "Profit-sharing Contribution"). The Profit-sharing Contribution may be contributed by the Company in the form of cash or Company stock.

The Profit-sharing Contribution, paid in the form of cash, for the years ended March 1, 1987 and March 2, 1986 was $500,000 and $800,000, respectively. No contribution was made in fiscal 1988.

14. RELATED PARTY TRANSACTIONS

The Company and The Palmieri Company, an affiliate of the Oppenheimer-Palmieri Fund with substantial experience in providing interim management assistance, entered into an agreement with respect to certain management services which have been provided by The Palmieri Company since November 6, 1987, whereby The Palmieri Company undertook to provide the Company with such services through January 29, 1988. The term of the agreement was subsequently extended through April 7, 1988. These services have included preparation of an analysis of the financial position of the Company; development and implementation of operating systems and financial controls; the review and implementation of corrective action with respect to various other administrative matters; and the initiation of a strategic planning process for the Company's future operations. The aggregate amount of such compensation was limited to $400,000 through January 29, 1988 and was limited to $250,000 for the extension period through April 7, 1988. The Company paid The Palmieri Company $465,000 pursuant to such arrangements during fiscal 1988.

EMI and the Company have entered into an agreement whereby EMI will sell merchandise inventory to the Company. A credit line of $11 million has been established.

Payment terms are net 60 days from shipment. The Company believes the terms of purchases from EMI are at least as favorable to the Company as those which could be obtained from independent third-party vendors or suppliers. At February 28, 1988, the Company had approximately $9.2 million outstanding under this credit line, which is included in accounts payable.

15. COMMITMENTS AND CONTINGENCIES

a. Litigation

The Securities and Exchange Commission (the "SEC" or the "Commission") has instituted a formal investigation of the Company and its former management. The Commission's formal order of investigation directs its staff to determine whether former officers and directors of the Company made false statements relating to the financial condition of the Company in connection with the purchase and sale of securities and in public filings and whether those officers and directors violated insider trading laws. The investigation also focuses on whether the accounting records of the Company were falsified and on other issues relating to actions of past management. Several former and current employees of the Company have received subpoenas and have provided testimony to the SEC in this investigation. The Company continues to cooperate with the SEC staff and has conducted an internal investigation with respect to these matters.

The Company is also cooperating with the United States Attorney for the District of New Jersey in connection with an ongoing federal grand jury investigation which originally focused on practices related to claims made for compensation and reimbursement under manufacturers' warranties for repairs made and parts provided by the Company. The Company believes that the scope of this investigation has now been expanded to include most of the matters covered by the SEC investigation and the securityholders' litigation discussed below. To date, the Company has produced and identified documents and provided information with respect to personnel that it believes to have knowledge of relevant facts. Without limiting its right to reconsider its position in certain circumstances, the United States Attorney's office has advised the Company that, in view of the cooperation of new management so far and the Company's removal of officers and directors primarily responsible for the matters under investigation, it views the current management and securityholders, and through them the Company, as victims of the matters being investigated rather than targets and does not at this point intend to seek an indictment against the Company.

In addition, the Company is a defendant in two securityholders' class action lawsuits alleging securities fraud, which are pending in federal court in Brooklyn. It is contemplated that the plaintiff class will be expanded to include past and present Debentureholders. A class has not yet been certified. A number of the Company's former officers and directors, the Company's former independent auditors, and four underwriters of securities offered by the Company are named as defendants in each case. The securityholders' litigation has been consolidated and the complaints allege a number of violations of federal securities law, corporate law and the Federal Racketeer Influenced Corrupt Organizations ("RICO") Act. The claims focus primarily upon prior management's conduct of the affairs of the Company, asserting that the Company experienced extremely large losses which former management fraudulently did not disclose to the investing public, and that former management systematically altered and destroyed Company records to conceal the fraud. Peat Marwick Main & Co. ("Peat Marwick"), the Company's former auditors, is charged with failing to apply generally accepted auditing standards and certifying materially false financial statements. Claims against the underwriters, Wertheim & Co., Inc., Salomon Brothers, Inc., Oppenheimer & Co., Inc. and Bear, Stearns & Co., Inc. allege that these defendants violated the federal securities laws by failing to investigate, with due diligence, the accuracy of the financial information furnished to purchasers of the Company's securities. Some of the defendants in the securityholders' litigation have sought indemnification from the Company and it is anticipated that others will also do so.

The Company has entered into a settlement agreement with the plaintiffs in the securityholders' litigation, which was approved by the Board of Directors in March 1988. Among other things, the agreement provides that the Company and the securityholders will cooperate in prosecuting claims against former management and Peat Marwick. In addition, the securityholders reserve the right to file claims against the underwriters for various securities offerings commencing on or after March

20, 1985. Any recovery from former management or the former auditors, net of the Company's costs of prosecuting the litigation (other than attorney's fees), will be divided between the securityholders and the Company, with the securityholders to receive 80% of any such recovery. The class of eligible securityholders is currently defined as those persons who purchased securities of the Company on or after March 20, 1985 (other than members of past management) through January 18, 1988. These securityholders are also to receive 2,750,000 shares of newly issued Common Stock. The Company has also agreed to attempt to rescind or to otherwise invalidate past management's Stockholder Rights Plan or "poison pill." The Company further committed itself to bear the costs of notice to the class and class administration, and to contribute $100,000 to assist the plaintiffs in prosecuting the securityholders' action. The agreement is subject to a number of conditions, including certification of the class, court approval, completion of plaintiffs' discovery, consummation of the Exchange Offer and certain other conditions regarding fairness to all securityholders, the financial condition of the Company not being materially different from that represented in the Company's 10-Q for the quarter ended November 29, 1987, and the execution of appropriate documents to enforce the agreement. Management believes that this agreement will be approved in a form which is not materially adverse to the financial position of the Company. On April 4, 1988, the Company filed its answer in the litigation and cross-claims against most of the other named defendants, including past management and Peat Marwick, seeking damages and indemnification for any liability to the securityholders. On April 18, 1988, the Company named additional discharged employees as defendants through the filing of a third-party complaint against them. The Company intends to cooperate with the securityholders in vigorously prosecuting this litigation.

The Company is a nominal defendant in three consolidated-derivative actions brought against certain of the former directors of the Company. No monetary relief is sought from the Company.

On December 1, 1987, the Company was fined $1,588,750 for the alleged sale in New York State of air conditioners which failed to comply with applicable state energy efficiency standards. On December 31, 1987, the fine was reduced to $357,450, subject to the Company's compliance with the payment schedule and refund-or-exchange procedure described hereunder. The fine is payable in three installments prior to July 5, 1988. The Company was also enjoined from making additional sales of noncomplying air conditioners, and will be required to advertise from May 1988 through July 1988, and to conduct during such period and for six months thereafter, a refund-or-exchange program for noncomplying air conditioners that were sold by the Company. Additionally, the Company will be required to pay $42,000 to the New York attorney general's office, following the refund-or-exchange program, for that office's costs and disbursements in connection with the proceeding. The costs payable to the attorney general will be reduced to the extent cash refunds exceed $40,000. The Company has provided for the reduced fine and paid $250,215 of the fine as of May 31, 1988.

On July 13, 1987, the Company announced that it had terminated its license agreements with Benel Distributors, Ltd. ("Benel"), which is wholly owned by Ben Kuszer, brother-in-law of Eddie Antar, and Mr. Kuszer's wife, which had operated the concession to sell prerecorded audio and video tapes and records in Crazy Eddie stores. At the time, Benel was approximately $400,000 in arrears in its payments of license fees to the Company. On that date, Benel filed a petition with the United States Bankruptcy Court, District of New Jersey, seeking protection under Chapter 11 of the United States Bankruptcy Code, damages and to prevent termination of the licenses.

The Company has agreed to pay approximately $393,000 to suppliers of Benel who asserted that the Company was responsible, as a guarantor, for payment of amounts owed by Benel to such suppliers.

On November 6, 1987, the Company filed a suit, in the Chancery Court of the State of Delaware, seeking to void the employment contracts of certain former officers and directors, and to obtain repayment of loans made to certain officers and directors. All of the officers and directors named in this litigation, except Eddie Antar, filed suit in November 1987 in the state courts of New York against the Company for breach of the same alleged contracts. All of the plaintiffs are also named as defendants in the pending securityholders' litigation. In order to consolidate in one forum the employment agreement litigation, the Delaware action has been stayed. The former officers are seeking over $5.5 million in aggregate damages. Management believes that the outcome of this litigation will not result in any material liability to the Company.

Two other discharged former employees have also filed suits against the Company claiming that they are entitled to damages for the breach of "employment contracts" they claim to have entered into with former management in September 1987. In *Zimel v. Crazy Eddie, Inc.*, filed in state court in New Jersey, the former Director of Finance, has claimed as damages lost wages of $103,000 per year for the remaining term of the alleged three-year agreement, plus medical and dental expenses. In *Gindi v. Crazy Eddie, Inc.*, filed in federal court in the Southern District of New York, the former Acting Controller of the Company seeks over $225,000 in damages. The Company has filed a counterclaim for the unpaid $149,000 balance of a loan former management extended to him. Both former employees are also defendants in the pending securityholders' litigation.

b. Rentals and lease commitments

Noncancellable operating leases entered into by the Company are primarily for retail stores and warehouse facilities. The leases usually contain renewal options and provide for payment by the lessee of real estate taxes, maintenance, insurance and other expenses and, in certain instances, increased rentals based on the percentage of sales. In addition, the Company leases various equipment, principally trucks, automobiles and computer equipment, under noncancellable operating leases.

Future minimum lease payments as of February 28, 1988 are as follows (in thousands):

Year ending	Operating lease commitments
1989	$ 12,210
1990	12,457
1991	12,684
1992	12,781
1993	11,425
Thereafter	127,981
	$189,538

The components of rent expense for all operating leases are as follows:

	Year ended		
	February 28, 1988	March 1, 1987	March 2, 1986
Minimum rentals	$ 9,046,000	$6,224,000	$3,821,000
Real estate taxes and other charges	1,857,000	1,113,000	733,000
	$10,903,000	$7,337,000	$4,554,000

Rent expense includes approximately $163,000, $202,000 and $185,000 for the years ended February 28, 1988, March 1, 1987 and March 2, 1986, respectively, paid to corporations controlled by Eddie Antar, former chairman of the board and Sam Antar, former executive vice president, or a corporation wholly owned by them.

Pursuant to certain license agreements which were terminated on July 13, 1987, the Company subleased the record departments at all of its store locations to Benel. In connection with these agreements, the Company received approximately $736,000, $1,512,000 and $741,000 for the years ended February 28, 1988, March 1, 1987 and March 2, 1986, which are netted against selling, general and administrative expenses.

c. Other commitments

At February 28, 1988, letters of credit of approximately $8.1 million were outstanding which secure certain trade payables and operating lease commitments.

16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarter ended				
	May 31, 1987	August 30, 1987	November 29, 1987	February 28, 1988	Total
Year ended February 28, 1988:					
Net sales	$78,052	$80,477	$ 68,651	$88,359	$315,539
Cost of goods sold	61,980	67,552	127,683	89,576	346,791
Net loss	(2,282)	(8,012)	(73,042)	(25,762)	(109,098)
Loss per share of common stock	$ (.07)	$ (.26)	$ (2.36)	$ (.83)	$ (3.52)

	Quarter ended				
	June 1, 1986	August 31, 1986	November 30, 1986	March 1, 1987	Total
Year ended March 1, 1987:					
Net sales	$64,500	$74,800	$91,125	$122,098	$352,523
Cost of goods sold	49,488	55,978	69,675	97,114	272,255
Net earnings	2,426	3,750	3,662	758	10,596
Earnings per share of common stock	$ .08	$ .12	$ .12	$ .02	$ .34

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Crazy Eddie, Inc.
Edison, New Jersey

In connection with our audit of the consolidated balance sheet of Crazy Eddie, Inc. and subsidiaries as of February 28, 1988, which report is incorporated by reference, we also audited the supporting schedules listed in the Index at Item 14(a)2. In our opinion, these schedules are free of material misstatement, when read in conjunction with the related consolidated balance sheet, with respect to the financial data required to be set forth therein.

Certified Public Accountants

TOUCHE ROSS & CO.

New York, New York
May 31, 1988

CRAZY EDDIE, INC.
AND SUBSIDIARIES

SCHEDULE OF MARKETABLE SECURITIES AND OTHER INVESTMENTS

FEBRUARY 28, 1988

Description	Number of shares or principal amount	Cost	Market value (2)	Amount at which carried on balance sheet
U.S. Government securities:				
U.S. Treasury obligation	$2,000,000	$1,993,750	$1,996,000	$1,996,000
Corporate debt securities(1)	5,816,325	5,816,325	5,820,404	5,820,404
Certificates of deposit	2,000,000	2,000,000	2,029,998	2,029,998
				$9,846,402

(1) Securities of any one individual issuer do not exceed 2 percent of total assets of the registrant.

(2) Includes interest accrued and earned to date.

CRAZY EDDIE, INC.
AND SUBSIDIARIES

SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES
YEARS ENDED FEBRUARY 28, 1988
MARCH 1, 1987 AND MARCH 2, 1986

	Balance at beginning of period	Additions			Deductions		Balance at end of period—not current
		Sales	Cash advances	Other	Amounts collected	Other	
YEAR ENDED FEBRUARY 28, 1988:							
Loans receivable—related parties:							
Solomon E. Antar (1)	$203,701	—	$ 115,000	$ —	$ —	$ —	$ 318,701
Sam E. Antar (1)	—	—	173,346	—	—	—	173,346
Eddie Gindi (1)	148,950	—	9,500	—	—	—	158,450
John Viva (1)	203,000	—	10,000	—	—	—	213,000
Larry Eivan	94,760	—	—	8,812	—	—	103,572
	$650,411	$ —	$ 307,846	$ 8,812	$ —	$ —	$ 967,069
YEAR ENDED MARCH 1, 1987:							
Loans receivable—officers:							
Solomon E. Antar	$ —	$ —	$ 203,701	$ —	$ —	$ —	$ 203,701
David Pardo	123,100	—	98,800	—	(123,100)	—	98,800
Morton Gindi	84,718	—	—	—	—	—	84,718
David Panoff	—	—	83,375	—	(10,375)	—	73,000
Ed Levy	—	—	275,000	—	(250,000)	—	25,000
Isaac Kairey	—	—	15,000	—	(15,000)	—	—
	$207,818	$ —	$ 675,876	$ —	$(398,475)	$ —	$ 485,219
YEAR ENDED MARCH 2, 1986:							
Loans receivable—officers:							
David Pardo	$ —	$ —	$ 123,100	$ —	$ —	$ —	$ 123,100
Morton Gindi	—	—	84,718	—	—	—	84,718
	$ —	$ —	$ 207,818	$ —	$ —	$ —	$ 207,818

(1) Individual is a former employee of the Company.

CRAZY EDDIE, INC.
AND SUBSIDIARIES

SCHEDULE OF SHORT-TERM BORROWINGS

YEARS ENDED FEBRUARY 28, 1988 AND MARCH 1, 1987

Category of aggregate short-term borrowings	Balance at end of period	Weighted average interest rate	Maximum amount outstanding during period	Average amount outstanding during period	Weighted average interest rate during period
YEAR ENDED FEBRUARY 28, 1988:					
Commercial paper	$ —	—%	$35,395,000	$ 8,716,750	6.8%
Notes payable—banks	24,500,000	10.4	58,000,000	31,766,667	10.4
	$24,500,000				
YEAR ENDED MARCH 1, 1988:					
Commercial paper	$33,886,000	6.8%	$34,000,000	$ 4,480,411	6.8%
Notes payable—banks	15,400,000	6.8	15,400,000	7,258,333	6.8
	$49,286,000				

Commercial paper represents obligations issued under the Company's commercial paper program.

Notes payable to banks represent obligations payable under lines of credit with a commercial lending institution.

The average amount outstanding during the period represents the average daily principal balances outstanding during the period.

The weighted average interest rate during the period was computed by dividing the actual interest incurred on short-term borrowings by the average amount outstanding during the period.

Headquarters
Crazy Eddie, Inc.
140 Carter Drive
Edison, N.J. 08817
(201) 248-1410

Annual Meeting of Stockholders
Date: October 4, 1988
Time: 10:00 a.m.
Place: New York Marriott Marquis
The Marquis Ballroom, Ninth Floor
1535 Broadway
New York City, NY

The Company
Crazy Eddie, Inc. is a leading retailer of consumer electronics and home entertainment products. With 42 stores in New York, New Jersey, Connecticut, and Pennsylvania, the Company serves a market area of approximately 18 million people. Crazy Eddie is well-known as the place to go for the best value and lowest cost in a broad spectrum of products. In the past year, new management has worked to secure the Company's footing in a changing and increasingly competitive marketplace.

General Counsel
Akin, Gump, Strauss, Hauer & Feld
1500 InterFirst Plaza
300 Convent Street
San Antonio, TX 78205

Independent Auditors
Touche Ross & Co.
1633 Broadway
New York, NY 10019-6754

Transfer Agent and Registrar
NCNB Texas National Bank
P.O. Box 2964
Dallas, TX 75221

Stock Exchange Listing
The Common Stock of Crazy Eddie, Inc. is traded on the National Market System under the NASDAQ symbol CRZYE.