

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934For Quarter Ended December 1, 1985Commission file number 2-91259CRAZY 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.)2845 Coney Island Avenue, Brooklyn New York

(Address of principal executive offices)

11235

(Zip Code)

(718) 934-0100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report.)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

<u>Date</u>	<u>Class</u>	<u>Shares Outstanding</u>
<u>January 12, 1986</u>	<u>Common Stock - \$.01 par value</u>	<u>13,867,400</u>
<u> </u>	<u> </u>	<u> </u>

CRAZY EDDIE, INC.

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Part I. Financial Information
Item 1. Financial Statements

CRAZY EDDIE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET
(In Thousands)

	December 1, 1985 (Unaudited)	March 3, 1985 (Audited)
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$19,537	\$22,273
Short-term Investments	5,000	-
Due from American Express Co.	4,084	1,876
Merchandise inventories	49,898	26,543
Prepaid expenses and other current assets	2,401	1,509
Total current assets	<u>80,920</u>	<u>52,201</u>
Restricted cash	3,980	7,058
Property, plant, and equipment at cost, less accumulated depreciation and amorti- zation of \$2,562 and \$1,878 respectively	6,789	3,696
Construction in process	4,581	1,154
Other assets	2,638	1,419
	<u>\$98,908</u>	<u>\$65,528</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Current maturities of long-term debt	\$ 921	\$ 423
Accounts payable	46,082	23,077
Unearned service contract revenue	1,660	1,173
Accrued expenses	7,628	8,734
Total current liabilities	<u>56,291</u>	<u>33,407</u>
Long-term debt, less current maturities	7,386	7,625
Unearned service contract revenue	<u>1,206</u>	<u>635</u>
Stockholders' equity:		
Preferred stock - par value \$1.00 per share; authorized 5,000 shares, none issued		
Common stock - par value \$.01 per share; authorized 50,000 shares, outstanding 13,819 and 13,400 shares, respectively	138	134
Additional paid-in capital	16,350	12,298
Retained earnings	17,537	11,429
Total stockholders' equity	<u>34,025</u>	<u>23,861</u>
	<u>98,908</u>	<u>65,528</u>

See accompanying notes to consolidated
condensed financial statements

CRAZY EDDIE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS

(Unaudited)

(In Thousands Except Per Share Amounts)

	<u>Three Month Period Ended</u> <u>December 1, 1985</u> <u>November 30, 1984</u>		<u>Nine Month Period Ended</u> <u>December 1, 1985</u> <u>November 30, 1984</u>	
Net sales	\$63,750	\$38,684	\$162,501	\$101,856
Cost of goods sold	<u>48,578</u>	<u>29,867</u>	<u>124,206</u>	<u>78,890</u>
Gross profit	15,172	8,817	38,295	22,966
Selling, general and administrative expense	10,280	6,041	26,743	17,075
Other income	699	333	2,177	800
Interest expense	<u>(180)</u>	<u>(34)</u>	<u>(604)</u>	<u>(260)</u>
Income before pension contri- bution and income taxes	5,411	3,075	13,125	6,431
Pension contribution	<u>150</u>	<u>200</u>	<u>300</u>	<u>400</u>
Income before income taxes	5,261	2,875	12,825	6,031
Income taxes	<u>2,683</u>	<u>1,495</u>	<u>6,717</u>	<u>2,972</u>
Net income	<u>\$ 2,578</u>	<u>\$ 1,380</u>	<u>\$ 6,108</u>	<u>\$ 3,059</u>
Earnings per share	<u>\$.19</u>	<u>\$.11</u>	<u>\$.44</u>	<u>\$.27</u>
Weighted average number of shares	<u>13,837</u>	<u>12,908</u>	<u>13,802</u>	<u>11,133</u>

See accompanying notes to consolidated condensed financial statements.

CRAZY EDDIE, INC. AND SUBSIDIARIES
 CONSOLIDATED CONDENSED STATEMENT OF
 CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

(In Thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, March 3, 1985	\$ 67	\$12,365	\$11,429	\$23,861
Net income, nine month period ended December 1, 1985	-	-	6,108	6,108
Issuance of 221,000 shares of common stock	2	4,054	-	4,056
Stock split effected in the form of a dividend	69	(69)	-	-
Balance, December 1, 1985	<u>\$138</u>	<u>\$16,350</u>	<u>\$17,537</u>	<u>\$34,025</u>

See accompanying notes to consolidated condensed financial statements.

CRAZY EDDIE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF
CHANGES IN FINANCIAL POSITION
(Unaudited) (In Thousands)

	<u>Nine Months Ended</u>	
	<u>December 1, 1985</u>	<u>November 30, 1984</u>
Working capital from:		
Net income	\$ 6,108	\$ 3,059
Add charges not affecting working capital:		
Depreciation and amortization	684	388
Loss on disposal of property, plant and equipment	<u>-</u>	<u>29</u>
Working capital provided from operations	6,792	3,476
Issuance of common stock, less issuance costs	4,056	11,813
Decrease in restricted cash	3,078	-
Increase in unearned service contract revenue	571	110
Increase in long-term debt	-	49
Decrease in due from affiliates	<u>-</u>	<u>5,651</u>
Total working capital provided	<u>14,497</u>	<u>21,099</u>
Working capital used for:		
Acquisition of property, plant, and equipment	3,777	1,403
Construction in process	3,427	999
Increase in other assets	1,219	16
Reduction in long-term debt	<u>239</u>	<u>-</u>
Total working capital used	<u>8,662</u>	<u>2,418</u>
Increase in working capital	<u>\$ 5,835</u>	<u>\$18,681</u>

See accompanying notes to consolidated condensed financial statements.

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Basis of Presentation

Financial information for the three month and nine month periods ended December 1, 1985 and November 30, 1984 is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of the financial position, results of operations and changes in financial position for such periods. The notes included herein should be read in conjunction with the notes to the consolidated financial statements of the Company at March 3, 1985 and May 31, 1984 and for the nine month period ended March 3, 1985 and the fiscal years ended May 31, 1984 and 1983 included in the Company's annual report on Form 10-K.

Public Offering

On March 20, 1985, the Company sold to the public 200,000 shares of common stock at a price of \$21 per share.

Inventories

Merchandise inventories are stated at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market. Inventory at December 1, 1985 was computed using the gross profit method.

Stockholders' Equity

On June 26, 1985, the Board of Directors declared a stock dividend of one share of the registrant's common stock, par value \$.01 per share ("Common Stock"), for each share of outstanding Common Stock, payable on July 31, 1985 to stockholders of record on July 12, 1985. The stock dividend required the transfer of approximately \$69,020 from the additional paid-in capital account to the Common Stock account. The prior period financial statements presented herein have been restated to reflect the effect of the Stock Dividend.

During the nine months ended December 1, 1985, 20,950 options to purchase Common Stock were exercised at \$8.29 per share.

CRAZY EDDIE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Continued)

(Unaudited)

Taxes

Income tax expense has been provided based upon management's estimate of the annualized effective tax rate.

Earnings per share

Earnings per share is computed based upon the weighted average number of common shares outstanding.

CRAZY EDDIE, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations

(Unaudited)

Results of Operations

Net sales for the three month period ended December 1, 1985 were \$63.8 million, representing an increase of \$25.0 million, or 64.8%, over the comparable period in the prior fiscal year. Of this increase, \$18.3 million resulted from the operation of additional stores. Sales to affiliates decreased \$.3 million during the latest period. The balance of the increase (\$7.1 million) resulted from increased sales from stores that were open throughout both periods representing a 19.0% comparable store increase.

Net sales for the nine month period ended December 1, 1985 were \$162.5 million, representing an increase of \$60.6 million, or 59.5%, over the comparable period in the prior fiscal year. Of this increase, \$44.5 million resulted from the operation of additional stores. Sales to affiliates decreased \$1.9 million during the period. The balance of the increase (\$18.1 million) resulted from increased sales from stores that were open throughout both periods representing a 19.8% comparable store increase.

Gross profit (net sales less cost of goods sold) increased by \$6.4 million and \$15.3 million in the three month and nine month periods ended December 1, 1985 as compared to the corresponding period in the prior fiscal year. Gross profit margins as percentage of net sales increased 1.0% and 1.1% for the three month and nine month periods ended December 1, 1985 as compared to the corresponding periods in the prior fiscal year. This resulted primarily from improvements in purchasing.

Selling, general and administrative expenses increased by \$4.2 million and \$9.7 million for the three month and nine month periods ended December 1, 1985 as compared to the corresponding periods in the prior fiscal year. This increase was primarily due to the additional costs incurred at the new stores during the period and non-deductible charges stemming from stock options issued during the third quarter to key employees of the chain.

CRAZY EDDIE, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations
(Continued)

(Unaudited)

Selling, general, and administrative expenses as a percentage of net sales approximated 16.1% and 15.6% for the three month periods ended December 1, 1985 and November 30, 1984, respectively, and approximated 16.5% and 16.8% for the nine month periods ended December 1, 1985 and November 30, 1984, respectively. The increase in selling, general and administrative expenses as a percentage of sales during the current quarter resulted primarily from increased store pre-opening costs and the issuance of stock options as discussed above.

Liquidity and Capital Resources

On March 20, 1985, Crazy Eddie, Inc. (the "Company") sold 200,000 shares of its Common Stock to the public at a price of \$21 per share. As a result of the offering, the Company received approximately \$3.9 million of net proceeds, the substantial portion of which remains available to finance additional store openings. At December 1, 1985, the Company had total working capital of \$24.6 million. During the nine month period ended December 1, 1985, the Company generated \$6.8 million of working capital from operations.

The company obtained a \$15 million unsecured line of credit with a commercial bank.

The Company believes that it will be able to continue to provide for its contemplated cash requirements and carry out its expansion plans without any material adverse effect on its financial condition or future operations. During the remainder of its 1986 fiscal year, the Company plans to open two new stores in the Borough of Manhattan in New York City (999 Third Avenue and 2186 Broadway). Another new store at Edison, NJ, site of the Company's new corporate headquarters and central warehouse, is slated to open during the first quarter of fiscal 1987.

PART II. OTHER INFORMATION

Not applicable.

CRAZY EDDIE, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements 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.

CRAZY EDDIE, INC.
(Registrant)

January 13, 1986
(Date)

/s/ Eddy Antar
Eddy Antar,
Duly Authorized Officer
and Principal Financial
Officer