

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For Quarter Ended August 31, 1986

Commission file number 2-91259

(Exact name of registrant as specified in its charter)

<u>Delaware</u>	<u>11-2667288</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

<u>140 Carter Drive, Edison, New Jersey</u> (Address of principal executive offices)	<u>08817</u> (Zip Code)
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(201) 248-1410
(Registrant's telephone number, including area code)

2845 Coney Island Ave., Brooklyn, New York 11235
(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 ☒ 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>October 10, 1986</u>	<u>Common Stock - \$.01 par value</u>	<u>31,284,300</u>

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Part I. Financial Information

Item 1. Financial Statements

CRAZY EDDIE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

	August 31, 1986 (In Thousands)	March 2, 1986
	(Unaudited)	
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 20,723	\$ 13,296
Short-term investments	108,188	26,840
Due from American Express Co.	2,339	2,246
Merchandise inventories	85,775	59,864
Prepaid expenses and other current assets	4,473	2,363
Total current assets	221,498	104,609
Restricted cash	3,000	3,356
Property, plant, and equipment at cost, less accumulated depreciation and amortization of \$3,596,000 and \$2,922,000, respectively	10,331	7,172
Construction in process	8,055	6,253
Other assets less amortization of \$14,000	9,165	5,560
	\$252,049	\$126,950
	=====	=====
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 18,951	\$ 2,254
Accounts payable	47,094	51,723
Unearned service contract revenue	4,816	3,696
Accrued liabilities	8,943	17,126
Total current liabilities	79,804	74,799
Long - term debt, less current maturities	497	7,701
Unearned service contract revenue	2,408	1,829
6% Convertible Subordinated Debentures, due 2011	81,000	----
Stockholders' Equity :		
Preferred stock - par value \$1.00 per share; authorized 5,000,000 shares, none issued		
Common stock - par value \$.01 per share; authorized 50,000,000 shares, outstanding 31,269,300 and 28,010,842 shares, respectively	312	280
Additional paid-in capital	57,179	17,668
Retained earnings	30,849	24,673
Total stockholders' equity	88,340	42,621
	\$252,049	\$126,950
	=====	=====

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)

Three Month Period Ended Six Month Period Ended
August 31, September 1, August 31, September 1,
1986 1985 1986 1985

Net Sales	\$74,800	\$52,908	\$139,300	\$98,751
Cost of goods sold	<u>55,978</u>	<u>40,146</u>	<u>105,466</u>	<u>75,628</u>
Gross profit	18,822	12,762	33,834	23,123
Selling, general and administrative expenses	<u>12,037</u>	<u>8,328</u>	<u>23,359</u>	<u>16,463</u>
Operating Income	6,785	4,434	10,475	6,660
Other income	2,028	1,005	3,308	1,478
Interest expense	<u>(1,487)</u>	<u>(206)</u>	<u>(1,792)</u>	<u>(424)</u>
Income before pension contribution and income taxes	7,326	5,233	11,991	7,714
Pension contribution	150	150	150	150
Income before income taxes	<u>7,176</u>	<u>5,083</u>	<u>11,841</u>	<u>7,564</u>
Income taxes	<u>3,426</u>	<u>2,694</u>	<u>5,665</u>	<u>4,034</u>
Net income	<u>\$ 3,750</u>	<u>\$ 2,389</u>	<u>\$ 6,176</u>	<u>\$ 3,530</u>
Earnings per share	<u>\$.12</u>	<u>\$.09</u>	<u>\$.20</u>	<u>\$.13</u>
Weighted average number of shares outstanding	<u>31,244</u>	<u>27,624</u>	<u>31,079</u>	<u>27,570</u>

See accompanying notes to consolidated condensed financial statements.

CRAZY EDDIE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF
CHANGES IN STOCKHOLDERS' EQUITY
For The Six Months Ended August 31, 1986

(Unaudited)

(In Thousands)

	<u>Common Stock</u>	<u>Additional paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	(In Thousands)			
Balance, March 2, 1986	\$140	\$17,808	\$24,673	\$42,621
Net income, six month period ended August 31, 1986	---	---	6,176	6,176
Issuance of 1,629,229 common shares	16	39,527	---	39,543
Retroactive effect of the stock split effected in the form of a dividend to Stockholders of record on September 9, 1986	156	(156)		
	-----	-----	-----	-----
Balance, August 31, 1986	\$312 =====	\$57,179 =====	\$30,849 =====	\$88,340 =====

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>Six Months Ended</u>	
	August 31, <u>1986</u>	September 1, <u>1985</u>
Working capital provided from:		
Net income	\$6,176	\$3,530
Add charges not affecting working capital:		
Depreciation and amortization	<u>850</u>	<u>411</u>
Working capital provided from operations	----- 7,026	----- 3,941
Decrease in restricted cash	356	2,775
Increase in unearned service contract revenue	579	334
Issuance of common stock, less issuance costs	39,543	3,948
Issuance of 6% convertible subordinated debentures	<u>81,000</u>	-----
Total working capital provided	<u>128,504</u>	<u>10,998</u>
Working capital used for:		
Acquisition of property, plant, and equipment, net of retirements	3,995	2,280
Construction in process	1,802	2,157
Reduction in long-term liabilities	7,204	188
Increase in other assets	<u>3619</u>	<u>255</u>
Total working capital used	<u>16,620</u>	<u>4,880</u>
Increase in working capital	\$111,884 =====	\$6,118 =====

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 six month periods ended August 31, 1986 and September 1, 1985 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 the interim periods. The notes included herein should be read in conjunction with the notes to the consolidated financial statements of the Company at March 2, 1986 and March 3, 1985 and for the fiscal year ended March 2, 1986, the nine months ended March 3, 1985 and the fiscal year ended May 31, 1984 included in the Company's annual report on Form 10-K.

Public Offering

On March 14, 1986, the Company sold to the public 2,990,000 shares of common stock at a price of \$13.1875 per share (as adjusted to reflect a two-for-one stock split paid in the form of a 100% stock dividend on September 30, 1986 to the stockholders of record on September 9, 1986 (the "Stock Dividend")). On July 1, 1986, the Company sold to the public \$81,000,000 of 6% Convertible Subordinated Debentures, due 2011, convertible at \$23.125 per share (as adjusted to give effect to the Stock Dividend).

Inventories

Merchandise inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or market. The inventory at August 31, 1986 has been computed based upon the gross profit method.

Related Party Transactions

The Company has made loans to certain officers. Each of these loans has a one year term and bears interest at the prime rate. On September 20, 1985 and April 11, 1986, the Company loaned \$123,000 and \$98,800, respectively, to

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

(Unaudited)

David Pardo. On January 31, 1986, the Company loaned \$84,718 to Morton Gindi. On June 13, 1986, the Company loaned \$125,430 to Solomon E. Antar. On July 1, 1986, the Company loaned \$90,000 to David V. Panoff.

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 on a primary basis based upon the weighted average number of common shares outstanding (as adjusted to give effect to the Stock Dividend). For the period ended August 31, 1986, convertible subordinated debentures, although common stock equivalents, were anti-dilutive, and therefore not included in the calculation of primary earnings per share.

Stockholders' Equity

On August 27, 1986 the Board of Directors declared a two-for-one stock split to be paid in the form of a 100% stock dividend payable on September 30, 1986 to stockholders of record on September 9, 1986. The prior period financial statements presented herein have been restated to reflect the effect of the Stock Dividend.

During the six months ended August 31, 1986, 153,700 nonqualified options to purchase Common Stock were exercised at prices of \$2.0725 and \$4.94 per share (as adjusted to give effect to the Stock Dividend). In addition, 114,758 warrants issued to the managing underwriter of the Company's initial public offering were exercised at a price of \$2.40 per share (as adjusted to give effect to the Stock Dividend). The underwriter had purchased such warrants at \$0.25 per share (as adjusted to give effect to the Stock Dividend).

Incentive stock options to purchase an aggregate of 30,000 shares of Common Stock were granted to four officers and two other employees on August 20, 1986 at an exercise price of \$17.57 per share (the average of the high and low

CRAZY EDDIE, INC. AND SUBSIDIARIES

sales prices on such date as reported by NASDAQ) (as adjusted to give effect to the Stock Dividend). Nonqualified stock options to purchase an aggregate of 465,110 shares of Common Stock were granted to six officers and 126 other employees on August 20, 1986 at an exercise price of \$17.57 per share (the average of the high and low sales price on such date as reported by NASDAQ) (as adjusted to give effect to the Stock Dividend). None of the options subject to such grants may be exercised prior to November 18, 1986 or after August 19, 1996.

Nonqualified stock options to purchase an aggregate of 240,250 shares of Common Stock were granted to two officers and 73 other employees on August 25, 1986 at an exercise price of \$18.19 per share (the average of the high and low sales price on such date as reported by NASDAQ) (as adjusted to give effect to the Stock Dividend). None of the options subject to such grants may be exercised prior to November 23, 1986 or after August 24, 1996.

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 August 31, 1986 were \$74.8 million, representing an increase of \$21.9 million, or 41.4%, over the comparable period in the prior fiscal year. Of this increase, \$16.1 million resulted from the operation of additional stores. The balance of the increase (\$5.8 million) resulted from increased sales from stores that were open throughout both periods, representing a 5.0% comparable store increase.

Net sales for the six month period ended August 31, 1986 were \$139.3 million, representing an increase of \$40.5 million, or 41.1%, over the comparable period in the prior fiscal year. Of this increase, \$30.9 million resulted from the operation of additional stores. There were no sales to affiliates during either period. The balance of the increase (\$9.6 million) resulted from increased sales from stores that were open throughout both periods, representing a 12.8% comparable store increase.

Gross profit (net sales less cost of goods sold) increased by \$6.1 million and \$10.7 million in the three month and six month periods ended August 31, 1986 as compared to the corresponding periods in the prior fiscal year. Gross profit margins as percentage of net sales increased 1.1% and 0.9% for the three month and six month periods ended August 31, 1986 as compared to the corresponding periods in the prior fiscal year. This resulted primarily from improvements in purchasing.

Selling, general, and administrative expenses as a percentage of net sales approximated 16.8% and 16.7% for the six month periods ended August 31, 1986 and September 1, 1985, respectively. Selling, general, and administrative expenses as a percentage of net sales approximated 16.1% and 15.7% for the three month periods ended August 31, 1986 and September 1, 1985, respectively. The increase in selling, general and administrative expenses as a percentage of sales resulted primarily from the costs of opening new stores and from the Company's entry into the telemarketing business.

CRAZY EDDIE, INC. AND SUBSIDIARIES

Liquidity and Capital Resources

On March 14, 1986, the Company sold 2,990,000 shares of its Common Stock to the public at a price of \$13.1875 per share (as adjusted to give effect to the Stock Dividend). As a result of the offering, the Company received approximately \$37.0 million of net proceeds. On July 1, 1986 the Company sold \$81,000,000 principal amount of 6% Convertible Subordinated Debentures, due 2011, convertible into common stock at \$23.125 per share (as adjusted to give effect to the Stock Dividend). Net proceeds from the offering approximated \$79 million. Proceeds from the Company's public offerings have been, and will continue to be, used for general corporate purposes including, but not limited to, opening new stores, financing the renovation, expansion and remodeling of existing stores and providing general working capital. In addition, a portion of such proceeds, together with other working capital of the Company, may be used to finance the acquisition of related businesses if the Company identifies suitable prospects. There are no agreements or understandings, and the Company is not involved in any discussion or negotiations, with respect to any such acquisition. Any additional funds necessary for expansion or acquisitions may be obtained through bank borrowings, internal sources or additional debt or equity offerings. At August 31, 1986, the Company had total working capital of \$141.7 million.

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 1987 fiscal year, the Company plans to open five new stores (of which three are expected to be located in New Jersey (Pleasantville, Eatontown, and Princeton), one in Enfield, Connecticut, and one in Valley Stream, New York). A sixth store is expected to be located at its new headquarters facility in Edison, New Jersey. In addition, the Company plans major store expansions in Orange and Norwalk, Connecticut and Totowa, New Jersey.

On December 21, 1984, the Company obtained a \$7.8 million loan from the New Jersey Economic Development Authority, the proceeds of which have been used to finance the construction of the Company's new headquarters facility in Edison, New Jersey. The loan bears interest at a rate equal

CRAZY EDDIE, INC. AND SUBSIDIARIES

to 75% of the prime rate of a commercial bank, subject to maximum and minimum interest rates per annum of 14% and 7-1/2%, respectively, and is repayable in varying installments through 2015. The Company plans to repay this loan prior to the end of fiscal year 1987, and as such, has reclassified it as a current liability. Incident to such prepayment, the Company will incur a prepayment penalty.

United Jersey Bank has issued a \$10 million letter of credit facility for the Company's benefit. Approximately \$500,000 of letters of credit are currently outstanding thereunder, bearing interest at 1/8 of 1%.

On September 1, 1986, the Company entered into an agreement with RepublicBank Dallas, National Association, establishing a \$50 million short-term credit facility with interest on amounts outstanding based on prime, certificate of deposit, LIBOR or money market fund rates. The agreement also provides for the issuance of letters of credit for the Company's benefit in an aggregate amount of not more than \$75 million less amounts outstanding under the credit facility. \$11 million is currently outstanding under the credit facility and approximately \$4 million of letters of credit have been issued.

Part II. Other Information

Item 1. Legal Proceedings

The Company is a defendant in Gerald Newman v. Crazy Eddie, Inc., an action filed in the New York Supreme Court, Westchester County, in September, 1984. The plaintiff sought damages in the aggregate amount of \$3,6 million based upon an alleged agreement in or about October 1983 between himself and the Company relating to services to be performed by the plaintiff in connection with a proposed public offering of the Company's stock. On April 21, 1986, the Appellate Division of the New York Supreme Court unanimously upheld the decision of the lower court granting summary judgment in favor of the Company. Mr. Newman has filed an application for leave to appeal to the New York Court of Appeals; such application is currently pending.

CRAZY EDDIE, INC. AND SUBSIDIARIES

Item 4. Submission of Matters to a Vote of Security Holders

On July 22, 1986, at the annual meeting of stockholders of the registrant, a proposal to approve the registrant's 1984 Stock Option Plan, as amended to reflect certain revisions to the Plan, including a substantial increase in the number of shares that may be optioned pursuant thereto, was approved by a vote of 8,119,072 to 102,810, with 5,603 shares abstaining.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- Indenture, dated as of June 15, 1986, between the Registrant and RepublicBank Dallas, National Association, as trustee, including form of Debenture (incorporated by reference from Amendment No. 1 to Registration Statement No. 33-6496, Exhibit 4.1, filed June 24, 1986).

(b) Reports on Form 8-K

On July 8, 1986, the registrant filed a report on Form 8-K reporting in "Item 5 - Other Events" a Public Offering by the Company of \$81,000,000 of 6% Convertible Subordinated Debentures, due 2011, and disclosing additional leases signed by the Company.

On August 5, 1986, the registrant filed a report on Form 8-K reporting in "Item 5 - Other Events" the acquisition of rights to use a satellite transponder and the planned development of a cable television shopping network.

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)

OCTOBER 10, 1986
(Date)

/s/ Sam E. Antar
Sam E. Antar
Duly Authorized Officer
and Principal Financial
Officer

CRAZY EDDIE, INC. AND SUBSIDIARIES

EXHIBIT INDEX

<u>Description of Document</u>	<u>Location of Exhibit in Sequential Numbering System</u>
Indenture, dated as of June 15, 1986, between the Registrant and RepublicBank Dallas, National Association, as trustee, including form of Debenture (incorporated by reference from Amendment No. 1 to Registration Statement No. 33-6496, Exhibit 4.1, filed June 24, 1986).	--