

## 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 May 31, 1987Commission File number 2-91259

## CRAZY EDDIE, INC.

(Exact name of registrant as specified in its charter)

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

<u>140 Carter Drive, Edison, New Jersey</u>	<u>08817</u>
(Address of principal executive offices)	(Zip Code)

<u>(201) 248-1410</u>
(Registrants 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>
July 22, 1987	Common Stock-\$.01 par value	30,956,980

# CRAZY EDDIE, INC. AND SUBSIDIARIES

## INDEX

### PAGE

#### Part I. Financial Information

##### Item 1. Financial Statements

Consolidated Condensed Balance Sheet May 31, 1987 and March 1, 1987	3
Consolidated Condensed Statement of Operations Three Months Ended May 31, 1987 and June 1, 1986	4
Consolidated Condensed Statement of Changes in Stockholders' Equity Three Months Ended May 31, 1987	5
Consolidated Condensed Statement of Changes in Financial Position Three Months Ended May 31, 1987 and June 1, 1986	6
Notes to Consolidated Condensed Financial Statements	7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
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#### Part 2. Other Information

Item 1. Legal Proceedings	16
Item 2. Changes in Securities	19
Item 6. Exhibits and Reports on Form 8-K	19
Signatures	20

Part I. Financial Information  
 Item 1. Financial Statements

CRAZY EDDIE, INC. AND SUBSIDIARIES  
 CONSOLIDATED CONDENSED BALANCE SHEET

<u>ASSETS</u>	May 31, 1987	March 1, 1987
	(In Thousands) (Unaudited)	
Current assets:		
Cash	\$ 13,858	\$ 9,347
Short-term investments	112,092	121,957
Receivables	6,656	10,846
Merchandise inventories	115,255	109,072
Prepaid income taxes	2,868	2,583
Prepaid expenses and other current assets	8,898	8,056
Total current assets	259,627	261,861
Property, plant and equipment, less accumulated depreciation and amortization of \$5,538,000 and \$4,849,000 respectively	30,879	26,401
Other assets	7,077	6,596
	<u>\$297,583</u>	<u>\$294,858</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Short-term debt	\$ 58,000	\$ 49,286
Current maturities of long- term debt	390	285
Accounts payable	48,383	50,022
Unearned service contract revenue	3,633	3,641
Accrued liabilities	7,132	5,593
Total current liabilities	117,538	108,827
Long-term debt, less current maturities	8,209	8,459
Convertible subordinated debentures	80,975	80,975
Unearned service contract revenue	3,367	3,337
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - par value \$1.00 per share; authorized 5,000,000 shares, none issued	-	-
Common stock - par value \$.01 per share; authorized 50,000,000 shares, issued 31,364,180 (of which 500,000 shares are held as treasury stock) and 31,337,680 shares, respectively	313	313
Additional paid-in capital	58,066	57,678
Retained earnings	32,987	35,269
	91,366	93,260
Less treasury stock at cost, 500,000 shares at May 31, 1987	3,872	-
	87,494	93,260
	<u>\$297,583</u>	<u>\$294,858</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 Months Ended</u>	
	<u>May 31, 1987</u>	<u>June 1, 1986</u>
Net sales	\$ 78,052	\$ 64,500
Cost of goods sold	<u>61,980</u>	<u>49,488</u>
Gross Profit	16,072	15,012
Selling, general and administrative expenses	<u>20,364</u>	<u>11,322</u>
Operating income <loss>	<u>&lt;4,292&gt;</u>	<u>3,690</u>
Other income	1,959	1,280
Interest expense	<u>&lt;2,219&gt;</u>	<u>&lt;305&gt;</u>
Income <loss> before income taxes <benefit>	<4,552>	4,665
Income taxes <benefit>	<u>&lt;2,270&gt;</u>	<u>2,239</u>
Net income <loss>	<u>\$ &lt;2,282&gt;</u>	<u>\$ 2,426</u>
Earnings <loss> per share	<\$.07>	\$.08
Weighted average number of shares outstanding	<u>30,844</u>	<u>30,912</u>

See accompanying notes to consolidated condensed financial statements.

## CRAZY EDDIE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF  
CHANGES IN STOCKHOLDERS' EQUITY  
For The Three Months Ended May 31, 1987  
(Unaudited)

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u> (In Thousands)	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance March 1, 1987	\$313	\$57,678	\$35,269	--	\$93,260
Net loss, three months ended May 31, 1987	--	--	<2,282>	--	<2,282>
Issuance of 26,500 common shares	--	388	--	--	388
Repurchase of 500,000 shares of treasury stock	--	--	--	<3,872>	<3,872>
Balance May 31, 1987	<u>\$313</u>	<u>\$58,066</u>	<u>\$32,987</u>	<u>&lt;\$3,872&gt;</u>	<u>\$87,494</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>Three Months Ended</u>	
	<u>May 31, 1987</u>	<u>June 1, 1986</u>
Working capital provided from:		
Net income <loss>	\$<2,282>	\$ 2,426
Add charges not affecting working capital:		
Depreciation and amortization	820	379
Deferred income taxes	<u>&lt;4&gt;</u>	<u>          </u>
Working capital provided <used> by operations	<1,466>	2,805
Decrease in restricted cash	--	685
Increase in unearned service contract revenue	30	290
Issuance of common stock less issuance costs	<u>388</u>	<u>38,328</u>
Total working capital provided <used>	<u>&lt;1,048&gt;</u>	<u>42,108</u>
Working capital used for:		
Acquisition of furniture, fixtures, equipment and leasehold improvements, net of retirements	5,298	1,582
Construction in process	--	933
Reduction in long-term liabilities	250	141
Increase in other assets	477	666
Acquisition of treasury stock	<u>3,872</u>	<u>--</u>
Total working capital used	<u>9,897</u>	<u>3,322</u>
Increase <decrease> in working capital	<u>\$&lt;10,945&gt;</u>	<u>\$38,786</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 periods ended May 31, 1987 and June 1, 1986 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 interim periods. The notes included herein should be read in conjunction with the notes to the consolidated financial statements of the Company at March 1, 1987 and March 2, 1986 and for the fiscal years ended March 1, 1987 and March 2, 1986 and the nine months ended March 3, 1985, included in the Company's annual report on Form 10-K.

**Inventories**

Merchandise inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or market. The inventory at May 31, 1987 has been computed based upon the gross profit method.

**Related Party Transactions**

The Company has made loans to certain of its officers for personal needs, including the exercise of stock options. Interest is paid at the time such loans are repaid in full. On September 20, 1985 and April 11, 1986, the Company loaned \$123,100 and \$98,800, respectively, to David Pardo, who at the time of such loans was an executive officer of the Company and is currently an employee of the Company. Mr. Pardo repaid the \$123,100 loan on September 20, 1986. The \$98,800 loan was extended for one year upon its original due date of April 10, 1987, and bears interest at the prime rate. On January 31, 1986, the Company loaned \$84,718 to Morton Gindi, which debt the Company expects will be paid by the estate of the deceased Mr. Gindi. On June 13, 1986, the Company loaned \$125,430 to Solomon E. Antar. Such loan was extended for six months upon its original due date of June 12, 1987, and bears interest at the rate of 9% per annum. On April 29, 1986, May 5, 1986 and July 7, 1986, the Company made loans of \$25,000, \$25,000 and \$23,000, respectively, to David V. Panoff at an annual interest rate of 1% above the prime rate. As of July 22, 1987, the outstanding aggregate balance of Mr. Panoff's loans is \$66,995, payable on demand. On February 27, 1987, the Company loaned \$78,271 to Solomon E. Antar for a period of

## CRAZY EDDIE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(Unaudited)

six months at an annual interest rate of 1% above the prime rate. The full amount of such loan is currently outstanding. On April 14, 1987 and July 1, 1987, the Company loaned \$40,000 and \$35,000, respectively, to Edmond Levy for, in each case, a period of six months at an annual interest rate of 1% above the prime rate. The full amount of such loans to Mr. Levy is currently outstanding. On May 13, 1987, the Company loaned \$100,000 to Sam E. Antar initially for a period of two months, which was later extended to four months at an interest rate of 9% per annum. As of July 22, 1987, \$70,200 is outstanding on this loan.

Taxes

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

Stockholders' Equity

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. The prior period financial statements presented herein have been restated to reflect the effect of the Stock Dividend.

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 RepublicBank Dallas, National Association, as Rights Agent. A copy of the Rights Agreement was filed with the Securities and Exchange Commission on April 30, 1987 as an exhibit to a Registration Statement on Form 8-A, dated April 28, 1987. 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. See "Part 2. Item 1. Legal Proceedings."

During the three months ended May 31, 1987, 26,500 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).



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

During the fourth quarter of fiscal 1987, the Board of Directors of the Company authorized the repurchase of up to 5,000,000 shares of the Company's Common Stock pursuant to a stock repurchase program. Repurchases will be made from time to time in the open market for the purpose of reducing the number of shares of Common Stock of the Company that are outstanding. The shares so purchased will be held in the Company's treasury and will be available from time to time for issuance upon exercise of stock options, for possible future acquisitions and for possible resale in future public or private offerings. The purchases will be made from the working capital of the Company other than working capital derived from borrowed funds. As of July 22, 1987, the Company has repurchased 500,000 shares of its Common Stock pursuant to the stock repurchase program at an aggregate cost of \$3,871,875.

**Earnings Per Share**

Earnings per share are 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 May 31, 1987, convertible subordinated debentures, although common stock equivalents, were anti-dilutive and, therefore, not included in the calculation of primary earnings per share.

**Buy-Out Proposals and Subsequent Events**

On May 20, 1987, the Board of Directors of the Company received an unsolicited offer from First City Capital Corporation ("First City") and Eddie Antar, Chairman of the Board of the Company, 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. The purchase of the stock would be made by a company formed by Mr. Antar and First City. The offer is subject to the execution of a definitive merger agreement containing customary terms and conditions. The offer stated that senior management of the Company would be expected to be given an opportunity to participate in the acquiring entity. As of the date of the offer, Mr. Antar and First City claimed to have owned in the aggregate approximately 14% of the Company's outstanding Common Stock.

In response to this offer, the Company's Board of Directors appointed a committee (the "Special Committee")



## CRAZY EDDIE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Continued)

(Unaudited)

consisting of the Company's outside directors, William H. Saltzman and James H. Scott, Jr., to consider and recommend to the Board of Directors a response to the offer with a view to the realization of maximum values to the stockholders of the Company. The Special Committee has retained the law firm of Kelley Drye & Warren as special counsel and the investment banking firm of Shearson Lehman Brothers Inc. as financial adviser to assist in evaluating the buy-out offers received from the Eddie Antar-First City group and from Entertainment Marketing, Incorporated (see following paragraph). As of July 22, 1987, 17 alleged class actions (which have been consolidated into one action) have been brought challenging the proposed buy-out by the Eddie Antar-First City group. An additional lawsuit has been 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 acquirers of the Company. See "Part 2. Item 1. Legal Proceedings."

On June 1, 1987, the Board of Directors of the Company received an unsolicited offer from Entertainment Marketing, Incorporated ("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. The purchase of the stock would be made by a corporation to be formed by EMI. The offer is subject to, among other things, the execution of a definitive agreement, redemption or other satisfactory termination of the Rights issued pursuant to the Company's Shareholder Rights Plan and the availability of financing. The EMI offer has been referred to the Special Committee to consider and recommend to the Board of Directors a response to the offer with a view to the realization of maximum values to the stockholders of the Company. By letter dated June 9, 1987, EMI requested certain financial and other information from the Company and stated that members of senior management and in-store management were invited to participate in the acquiring entity, although EMI stated that its offer is expressly not conditioned on retention of current senior management. As of June 26, 1987, EMI, together with its Chairman Elias Zinn, claimed to have owned in the aggregate approximately 5.1% of the Company's outstanding Common Stock. By letter dated July 22, 1987, EMI notified the Company of its intention to acquire 15% of the Company's outstanding Common Stock.

On July 13, 1987, the Company announced that it had terminated its license agreements with Benel Distribu-

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

tors, Ltd. ("Benel"), which has operated the concession to sell pre-recorded audio and video tapes and records in Crazy Eddie stores. 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. Such Court also issued an order on July 13, 1987 temporarily restraining the Company from, among other things, terminating its license agreements with Benel or in any way interfering with the ordinary course of business operations of Benel. See "Part 2. Item 1. Legal Proceedings." Benel is a New York corporation wholly-owned by Ben Kuszer and his wife, Ellen Kuszer, the sister of Eddie Antar. The Company believes that it is currently owed approximately \$400,000 by Benel for licensing fees. A supplier of Benel has asserted that the Company may be responsible, as a guarantor, for payment of amounts owing by Benel to such supplier, which are estimated by the supplier to total approximately \$1 million.

As reported in the Company's Annual Report on Form 10-K for the fiscal year ended March 1, 1987 (the "10-K Report"), counsel for the Company questioned the legality of the procedures by which certain persons who had held options to purchase Common Stock of the Company were given the opportunity to surrender such options for cancellation and receive in exchange, on January 28, 1987, new nonqualified options. On June 15, 1987, upon recommendation of counsel, the Stock Option Committee of the Board of Directors of the Company unanimously ratified and approved all actions of the Company in respect of such stock option exchange offer.

**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 months ended May 31, 1987 were \$78.0 million, representing an increase of \$13.5 million, or 20.9%, over the comparable period in the prior fiscal year. New stores in operation and other merchandising activities during the three months ended May 31, 1987 were responsible for an increase of \$25.2 million in sales. The balance of the change (\$11.7 million decrease) resulted from decreased sales from stores that were open throughout both periods, representing a 23.0% comparable store decrease.

Gross profit (net sales less cost of goods sold) increased by \$1.1 million in the three months ended May 31, 1987 as compared to the corresponding period in the prior fiscal year. Gross profit margin as a percentage of net sales decreased 2.7% for the three months ended May 31, 1987 as compared to the corresponding period in the prior fiscal year due to increased competition and resulting pressure on profit margins.

Selling, general and administrative expenses as a percentage of net sales approximated 26.1% for the three months ended May 31, 1987. Selling, general and administrative expenses as a percentage of net sales approximated 17.6% for the three months ended June 1, 1986.

The increase in the percentage of selling, general and administrative expenses to sales during the period ended May 31, 1987 resulted primarily from the Company's costs in setting up expansion programs (including relocation of the Company's warehouse facilities), lower comparable store sales while expenses increased on a comparable store basis, entries into new markets and writing off pre-opening costs as incurred.



**CRAZY EDDIE, INC. AND SUBSIDIARIES****Item 2.     Management's Discussion and Analysis of Financial  
Condition and Results of Operations**  
(Continued)

(Unaudited)

**Liquidity and Capital Resources**

On March 7, 1986, the Company sold 2,990,000 shares of its Common Stock to the public at a price of \$13.1875 per shares (as adjusted to give effect to the Stock Dividend). As a result of the offering, the Company received approximately \$37 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 used for general corporate purposes including, but not limited to, opening new stores, financing and renovation 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 discussions 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 May 31, 1987, the Company had total working capital of \$142.1 million. During the three months ended May 31, 1987, \$1.5 million of working capital was used by operations.

During the fourth quarter of fiscal 1987, the Board of Directors of the Company authorized the repurchase of up to 5,000,000 shares of the Company's Common Stock pursuant to a stock repurchase program. See "Part I. Item 1. Stockholders' Equity." As of July 22, 1987, the Company has repurchased 500,000 shares of its Common Stock pursuant to the stock repurchase program at an aggregate cost of \$3,871,875.

**CRAZY EDDIE, INC. AND SUBSIDIARIES****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

(Continued)

(Unaudited)

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 1988 fiscal year and the first quarter of fiscal 1989, the Company plans to open six new stores, of which three are expected to be located in Connecticut (Bridgeport, Farmington and North Haven), one in New York (Brooklyn) and two in Pennsylvania (Willow Grove and Philadelphia).

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 bore interest at a rate equal 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 was repayable in varying installments through 2015. On October 31, 1986 the balance of this loan was paid in full by the Company. On February 9, 1987, the Company borrowed \$7,680,000 from a commercial bank at a fixed interest rate of 7.6%. This loan, which is unsecured, is scheduled to mature on February 9, 1989; however, the Company is currently in the process of negotiations with the bank whereby the loan is expected to be converted into a five year commercial mortgage secured by the building in which the Company's headquarters is located.

United Jersey Bank has issued a \$10 million letter of credit facility for the Company's benefit. To date no letters of credit have been issued thereunder.

Midland Bank has issued the Company approximately \$250,000 of letters of credit which are used to secure the Company's obligations under certain real property leases.

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



CRAZY EDDIE, INC. AND SUBSIDIARIES

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

(Unaudited)

facility. As of July 22, 1987, \$38 million was outstanding under the credit facility.

On December 15, 1986, the Company entered into an agreement with Salomon Brothers, Inc for the issuance of unrated commercial paper. The program provides for a maximum issuance of \$50 million. Morgan Guaranty Trust Company of New York has been retained as Issuing and Paying Agent in connection with this program. As of July 22, 1987, there was no commercial paper outstanding. The proceeds of this program are to be used for working capital.

On January 2, 1987, the Company entered into an agreement with Chemical Bank establishing a \$52 million letter of credit facility. In addition, the Company established a \$25 million short-term working capital line within the overall \$52 million facility. As of July 22, 1987, no funds were outstanding under the credit line and approximately \$550,000 of letters of credit were issued and outstanding. In June 1987, Chemical Bank revoked this letter of credit facility and working capital credit line.

On June 1, 1987, the Company entered into an agreement with Midlantic National Bank for a secured loan of \$8.5 million, due July 23, 1987. The facility is secured by certain U.S. Government securities. Additionally, Midlantic National Bank has issued \$500,000 of letters of credit which were outstanding as of July 22, 1987.

Part II. Other Information  
Item 1. Legal Proceedings

The Company was 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 \$3,600,000 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. The Company filed a counterclaim seeking compensatory and punitive damages from the plaintiff together with reimbursement of all legal expenses incurred by the Company in defending the plaintiff's action. On April 21, 1986, the Appellate Division of New York Supreme Court unanimously upheld the decision of the lower court granting summary judgment in favor of the Company. The plaintiff filed an application for leave to appeal to the New York Court of Appeals, which application was dismissed on November 11, 1986. The Company's counterclaim against Mr. Newman was settled in June 1987 to the satisfaction of the Company.

The Company and several of its present or former officers and/or directors are defendants in Morris Rottman v. Crazy Eddie, Inc., Eddie Antar, Sam Antar, Mitchell Antar, Eddy Antar, James H. Scott, Jr. and Carl G. Zimel, an alleged class action and derivative action filed in United States District Court, District of New Jersey, on June 2, 1987, with an amended complaint filed on June 4, 1987. The amended complaint alleges that the adoption of the Company's Shareholder Rights Plan constitutes a breach of the defendant directors' fiduciary duties and a restraint on the ability of Crazy Eddie stockholders to sell their shares. The amended complaint seeks to have the Company's Shareholder Rights Plan declared invalid, enjoin its operation and/or have the rights issued thereunder redeemed. The amended complaint also requests an order requiring the defendants to seek potential acquirers and offer confidential information evidencing significant value in the Company. On or about June 4, 1987, the plaintiff moved by order to show cause for a temporary restraining order and/or preliminary injunction (a) enjoining the defendants from (i) enforcing or otherwise invoking the Company's Shareholder Rights Plan; (ii) otherwise resisting or discouraging potential acquirers of Common Stock of the Company, including, but not limited to, Entertainment Marketing, Incorporated; (iii) making any "greenmail" payments to any person to avoid such person's acquisition of Common Stock of the Company; and (b) directing the defendants to (i) redeem the rights issued pursuant to the Company's Shareholder Rights Plan; and (ii) provide potential acquirers of Common Stock of the Company all information they may request pertinent to the financial condition of the Company. The return date of the motion has been adjourned without date and the parties are now engaged in discovery proceedings.

Seventeen alleged class actions on behalf of current Crazy Eddie stockholders (see the Company's 10-K Report for the fiscal year ended March 1, 1987 at pp. 19-21) have been consolidated under the caption In Re Crazy Eddie, Inc. Shareholders Litigation, No. 9014, in the Court of Chancery of the State of Delaware, New Castle County. The named defendants are Eddie Antar, Sam Antar, Mitchell Antar, Eddy Antar, Solomon E. Antar, Sam E. Antar, David V. Panoff, Isaac Kairey, Steve Pasquariello and the Company.

The complaint charges that a proposed buy-out of the Company for \$7.00 per share by director Eddie Antar and First City Capital Corporation, announced on May 20, 1987, would be unfair to the stockholders, a breach of fiduciary duty by the individual defendants, and is the product of a plan or scheme to depress the market price of the Company's Common Stock in order to facilitate the proposed buy-out. The complaint alleges in substance that (a) the individual defendants timed the announcement of the proposed buy-out in order to put a lid on the allegedly depressed market price of Crazy Eddie Common Stock; (b) the "insider" defendants failed to disclose the true present value of the Company's assets or its future earning potential, and that these nondisclosures have been intended to maintain the recently "depressed" prices of the Company's Common Stock; (c) because the individual defendants, or most of them, allegedly will participate in the proposed buy-out, their interests conflict with those of the Company's other stockholders; (d) the defendants did not adequately evaluate the proposed buy-out, solicit other bids for the Company or counter adverse rumors about the Company and Eddie Antar's health; (e) the proposed price of \$7.00 per share is unfair to the stockholders; and (f) the Company has failed to disclose the nature or extent of an inquiry of the Company by the Securities and Exchange Commission.

The suit seeks (a) a declaration that the defendants have committed a gross abuse of trust and have breached their fiduciary duties to Crazy Eddie and its stockholders; (b) an injunction to prevent the proposed buy-out; (c) rescission of the buy-out should it occur before trial; and/or (d) unspecified damages. No monetary relief is sought from the Company.

On July 13, 1987, an order issued from the United States Bankruptcy Court, District of New Jersey in a case under Chapter 11 of the United States Bankruptcy Code entitled In the Matter of Benel Distributors, Ltd., Case No. 87-04259, requiring Crazy Eddie, Inc. and its subsidiaries ("respondents") to show cause on July 17, 1987, why an order should not be entered (a) preliminarily restraining termination by respondents of the various license agreements between respondents as licensors and Benel Distributors, Ltd. and its subsidiaries ("movants") as licensees, pending final adjudication of the respective rights and responsibilities of the parties thereunder; (b) preliminarily restraining respondents from interfering with the ordinary business



operations of movants by any means including, but not limited to, (i) threatening or seeking to terminate movants' employees, (ii) hiring by respondents of movants' employees, (iii) denying access to licensed movants' premises or movants' assets to movants' officers, agents or employees (provided that no assets shall be disposed of except in the ordinary course of business), (iv) interfering with the processing of payroll by outside payroll services, or (v) in any other fashion interfering with the ordinary course of business operations of movants (provided that no inventory or other purchases shall be made pledging the credit or using the guarantee of respondents); (c) directing respondents to turn over forthwith to the debtor-in-possession and its subsidiaries, all their books, records, bank accounts, checkbooks, contracts, insurance policies and other recorded information relating to the debtor's property and financial affairs, including, but not limited to, each and every purported license agreement between the respondents and the movants; or (d) in any other fashion interfering with the ordinary course of business operations of movants.

The Bankruptcy Court further ordered that, pending the hearing and determination of the application for preliminary injunctive relief, the respondents be temporarily restrained from (a) terminating the various license agreements; (b) interfering with the ordinary business operations of movants by any means including, but not limited to, (i) threatening or seeking to terminate movants' employees, (ii) hiring of movants' employees, (iii) denying access to movants' premises or movants' assets to movants' officers, agents or employees (provided that no assets shall be disposed of by movants except in the ordinary course of business), (iv) interfering with the processing of payroll by outside payroll services; or (v) in any other fashion interfering with the ordinary course of business operations of movants (provided that no inventory or other purchases shall be made by movants pledging the credit or using the guarantee of respondents).

On July 17, 1987, the Bankruptcy Court designated several dates in September 1987 for the hearing on the application for preliminary injunctive relief and continued the temporary restraining order until that time. In the interim, the Bankruptcy Court directed the movants to serve a complaint embodying their claims against respondents, and directed the parties to conduct any necessary discovery proceedings.

## Item 2. Changes in Securities

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, 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 RepublicBank

Dallas, National Association, as Rights Agent. A copy of the Rights Agreement was filed with the Securities and Exchange Commission on April 30, 1987 as an exhibit to a Registration Statement on Form 8-A, dated April 28, 1987, which Rights Agreement is herein incorporated by reference. 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. See "Part 2. Item 1. Legal Proceedings."

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 4.6 Form of Rights Agreement, dated as of April 10, 1987, between the Company and RepublicBank Dallas, National Association, including form of Right Certificate (incorporated by reference from Form 8-A, Exhibit 1, filed April 30, 1987)
- 4.7 Certificate of Designations in respect of Series A Preferred Stock (incorporated by reference from Form 8-A, Exhibit A to Exhibit 1, filed April 30, 1987)
- 28.27 Consolidated Amended and Supplemental Class Action Complaint filed in In Re Crazy Eddie, Inc. Shareholders Litigation (Del. Ch. June 18, 1987)

(b) Reports on Form 8-K

None

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)

July 23, 1987

(Date)

/s/ Sam E. Antar  
Sam E. Antar  
Executive Vice President  
and  
Chief Financial Officer



CRAZY EDDIE, INC. AND SUBSIDIARIES

EXHIBIT INDEX

<u>Number</u>	<u>Description of Document</u>	<u>Location of Exhibit in Sequential Numbering System</u>
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