

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended August 30, 1987

Commission 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)

(201) 248-1410
(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

Indicated 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>
October 15, 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,
August 30, 1987 and March 1, 1987 3

Consolidated Condensed Statement of
Operations, Three Month and Six
Month Periods Ended August 30,
1987 and August 31, 1986 4

Consolidated Condensed Statement of
Changes in Stockholders' Equity,
Six Month Period Ended August 30,
1987 5

Consolidated Condensed Statement of
Changes in Financial Position,
Six Month Periods Ended August 30,
1987 and August 31, 1986 6

Notes to Consolidated Condensed
Financial Statements 7

Item 2. Management's Discussion and
Analysis of Financial Condition
and Results of Operations 14

Part II. Other Information

Item 1. Legal Proceedings 18

Item 6. Exhibits and Reports on Form 8-K 22

Signatures 24

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

	August 30, 1987 (Unaudited)	March 1, 1987
ASSETS		
Current assets:		
Cash	\$ 10,265	\$ 9,347
Short-term investments	72,274	121,957
Receivables	15,578	10,846
Merchandise inventories	126,716	109,072
Prepaid income taxes	3,603	2,583
Prepaid expenses and other current assets	<u>6,444</u>	<u>8,056</u>
Total current assets	234,880	261,861
Property, plant and equipment, less accumulated depreciation and amortization of \$6,936,000 and \$4,849,000, respectively	<u>32,652</u>	<u>26,401</u>
Other assets	<u>6,923</u>	<u>6,596</u>
	<u>\$274,455</u>	<u>\$294,858</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 35,000	\$ 49,286
Current maturities of long- term debt	7,901	285
Accounts Payable	54,017	50,022
Unearned service contract revenue	3,221	3,641
Accrued liabilities	<u>9,748</u>	<u>5,593</u>
Total Current liabilities	<u>109,887</u>	<u>108,827</u>
Long-term debt, less current maturities	<u>593</u>	<u>8,459</u>
Convertible subordinated debentures	<u>80,975</u>	<u>80,975</u>
Unearned service contract revenue	<u>2,952</u>	<u>3,337</u>
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 31,456,980 (of which 500,000 shares are held as treasury stock) and 31,337,680 shares, respectively	315	313
Additional paid-in capital	58,630	57,678
Retained earnings	<u>24,975</u>	<u>35,269</u>
	83,920	93,260
Less treasury stock at cost, 500,000 shares at August 30, 1987	<u>3,872</u>	<u>-</u>
Total stockholders' equity	<u>80,048</u>	<u>93,260</u>
	<u>\$274,455</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>Six Months Ended</u>	
	<u>August 30, 1987</u>	<u>August 31, 1986</u>	<u>August 30, 1987</u>	<u>August 31, 1986</u>
Net sales	\$ 80,477	\$ 74,800	\$158,529	\$139,300
Cost of goods sold	<u>67,552</u>	<u>55,978</u>	<u>129,532</u>	<u>105,466</u>
Gross profit	12,925	18,822	28,997	33,834
Selling, general and administrative expenses	<u>26,277</u>	<u>12,037</u>	<u>46,641</u>	<u>23,359</u>
Operating income (loss)	(13,352)	6,785	(17,644)	10,475
Other income (expense)	(51)	2,028	1,908	3,308
Interest expense	<u>(2,543)</u>	<u>(1,487)</u>	<u>(4,762)</u>	<u>(1,792)</u>
Income (loss) before pension contribution and income taxes (benefit)	(15,946)	7,326	(20,498)	11,991
Pension contribution	<u>-</u>	<u>150</u>	<u>-</u>	<u>150</u>
Income (loss) before income taxes (benefit)	(15,946)	7,176	(20,498)	11,841
Income taxes (benefit)	<u>(7,934)</u>	<u>3,426</u>	<u>(10,204)</u>	<u>5,665</u>
Net income (loss)	<u>\$ (8,012)</u>	<u>\$ 3,750</u>	<u>\$ (10,294)</u>	<u>\$ 6,176</u>
Earnings (loss) per share	<u>\$ (0.26)</u>	<u>\$ 0.12</u>	<u>\$ (0.33)</u>	<u>\$ 0.20</u>
Weighted average number of shares outstanding	<u>31,441</u>	<u>31,244</u>	<u>31,393</u>	<u>31,079</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 30, 1987

(Unaudited)
(In Thousands)

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance, March 1, 1987	\$313	\$57,678	\$35,269	-	\$93,260
Net loss, six months ended August 30, 1987	-	-	(10,294)	-	(10,294)
Issuance of 119,300 common shares	2	952	-	-	954
Repurchase of 500,000 shares of treasury stock	-	-	-	(3,872)	(3,872)
Balance, August 30, 1987	<u>\$315</u>	<u>\$58,630</u>	<u>\$24,975</u>	<u>\$(3,872)</u>	<u>\$80,048</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>Six Months Ended</u>	
	<u>August 30, 1987</u>	<u>August 31, 1986</u>
Working capital provided from:		
Net income (loss)	\$(10,294)	\$ 6,176
Add charges not affecting working capital:		
Depreciation and amortization	<u>2,132</u>	<u>850</u>
Working capital (used) provided from operations	(8,162)	7,026
Decrease in restricted cash	-	356
Increase in unearned service contract revenue	-	579
Issuance of common stock less issuance costs	954	39,543
Issuance of 6% convertible subordinated debentures	<u>-</u>	<u>81,000</u>
Total working capital provided (used)	<u>(7,208)</u>	<u>128,504</u>
Working capital used for:		
Acquisition of property, plant, and equipment, net of retirements	8,328	3,995
Decrease in unearned service contract revenue	385	-
Construction in process	-	1,802
Reduction in long-term liabilities	7,866	7,204
Increase in other assets	382	3,619
Acquisition of treasury stock	<u>3,872</u>	<u>-</u>
Total working capital used	<u>20,833</u>	<u>16,620</u>
Increase (decrease) in working capital	<u>\$(28,041)</u>	<u>\$111,884</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 six month periods ended August 30, 1987 and August 31, 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 (FIFO) method, or market. The inventory at August 30, 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 \$123,000 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, bore interest at the prime rate and was repaid by Mr. Pardo on October 5, 1987. On January 31, 1986, the Company loaned \$84,718 to Morton Gindi. Mr. Gindi died in September 1986. The Company expects that the indebtedness of Mr. Gindi (including interest at the prime rate) will be paid by his estate.

On April 10, 1987, July 1, 1987 and September 28, 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%, 9-1/2% and 9%, respectively. On October 14, 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.

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. Such loans were payable on demand and bore interest at 1% above the prime rate. During the first six months of 1986, Mr. Panoff also received cash advances totalling \$17,000. On July 18, 1986, all of Mr. Panoff's indebtedness to the Company was consolidated into a promissory note in the amount of \$90,000, which provided for interest at 9% per annum, payment of \$17,000 of principal on January 2, 1987 and the remainder on February 2, 1988. On January 12, 1987, Mr. Panoff paid an installment of \$17,000 of principal on such note. On February 2, 1987, Mr. Panoff's note of July 18, 1986 was exchanged for a note in the principal amount of \$73,000, which bore interest at the rate of 8-1/2% per annum. Principal on such note was to be paid at the rate of \$500 per week and all interest on such note was to be paid at maturity. On October 14, 1987, the Company converted the remaining \$66,995 balance on Mr. Panoff's February 2, 1987 note into a new note bearing interest at 8-1/2% per annum and providing for monthly installments of principal and interest in the amount of \$1,374.37 for five years.

On May 13, 1987, the Company loaned \$100,000 to Sam E. Antar for a period of two months, which was later extended for an additional two months upon the original due date of July 13, 1987. Such note bore interest at the rate of 9% per annum. On July 30, 1987, the Company loaned an additional \$50,000 to Sam E. Antar at an interest rate of 10% per annum, payable on demand. On July 7, 1987, August 24, 1987 and September 8, 1987, the Company made cash advances to Sam E. Antar in the amounts of \$25,000, \$30,000 and \$42,000, respectively. On October 14, 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.

On June 13, 1986, the Company made loans of \$41,500 and \$83,930 to Solomon E. Antar, which loans were payable on demand and initially bore interest at the rate of 10% per annum. Such interest rate was to be adjusted every three months during the term of such loans to be equal to the prime rate

announced by Citibank, N.A. as in effect at such times. On October 14, 1987, such loans 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. On February 27, 1987, the Company loaned \$78,271 to Solomon E. Antar at a floating interest rate of 1% above the Citibank prime rate, payable on demand. On October 14, 1987, such loan was converted into a note payable March 12, 1989 at an interest rate of 8-1/2% per annum. On July 15, 1987, the Company made cash advances to Solomon E. Antar in the amounts of \$15,000 and \$100,000. On October 14, 1987, such amounts were consolidated into a note in the amount of \$115,000 payable July 15, 1989 at an interest rate of 9% per annum.

On September 22, 1987, the Board of Directors of the Company reduced the annual salary of each executive officer of the Company, with each such officer's consent, and approved an employment agreement for each executive officer of the Company providing for the minimum base salary per annum set forth opposite such officer's name below:

<u>Executive Officer</u>	<u>Annual Base Salary</u>
Eddy Antar	\$140,000
Sam E. Antar	160,000
Solomon E. Antar	160,000
Isaac Kairey	160,000
Edmond Levy	120,000
David V. Panoff	140,000
Steven Pasquariello	120,000

The annual base salary levels of \$160,000, \$140,000 and \$120,000 provided for in the executive employment agreements represent reductions from the annual salaries of \$225,000, \$160,000 and \$125,000, respectively, earned by such executive officers immediately prior to their execution of employment agreements.

The executive employment agreements (copies of which are filed as Exhibits hereto), each dated as of September 23, 1987, provide that, unless otherwise terminated pursuant to the terms of the agreement, the term of each executive officer's employment shall continue for a period of five years from the date of such agreement. Each agreement may be renewed by mutual consent of the parties thereto. The agreements do not obligate the Company to increase the base salary of the executive officers, but do not permit such salaries to be reduced below the level set forth in each such agreement.

On September 22, 1987, the Board of Directors also voted to eliminate, as of that date, the \$600,000 annual salary of Eddie Antar, Chairman of the Board of Directors, and to terminate the Employment Agreement, dated as of June 1, 1984, between the Company and Mr. Antar. Such Employment Agreement was terminated with the understanding that the Company would enter into a new agreement with Mr. Antar providing Mr. Antar with an annual discretionary expense account in the amount of \$50,000, indemnification from liability and advancement of expenses for his defense of such liability claims. Mr. Antar and the Company are in the process of preparing such new agreement.

Other Income (Expense)

A liability in the amount of \$1,700,000 has been accrued because certain suppliers of Benel Distributors, Ltd. ("Benel") have asserted that the Company may be responsible, as a guarantor, for payment of amounts owing by Benel to such suppliers, which are estimated by the suppliers to total approximately \$1,700,000. Benel filed for protection under Federal bankruptcy laws on July 13, 1987. See "Buy-Out Proposals and Subsequent Events" below. The Company is disputing the validity of such guaranties and the accrual of such liability is not intended as any concession that such guarantees are valid. The accrual of such liability is based on prudent conservative accounting.

Taxes

Income tax expense has 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 Shareholders Rights Plan and to direct the Company to redeem the Rights. See "Part II. Item 1. Legal Proceedings."

During the six months ended August 30, 1987, 119,300 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).

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 now outstanding. The shares so purchased will be held in the Company's treasury and will be available from time to time for the issuance upon exercise of stock options, for possible future acquisitions and for possible resale in future public or private offerings. The purchase will be made from the working capital of the Company other than the working capital derived from borrowed funds. As of October 14, 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 August 30, 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 offer was withdrawn on August 12, 1987. The purchase of the stock was to be made by a company to be formed by Mr. Antar and First City. The offer was 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 this 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") 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 had 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). On September 3, 1987, the Company's Board of Directors abolished the Special Committee following the withdrawal of the buy-out offers. As of October 14, 1987, 17 alleged class actions (which have been consolidated into one action) had been brought challenging the proposed buy-out by the Eddie Antar-First City 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 "Part II. 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. EMI withdrew its offer on July 28, 1987. The purchase of the stock was to be made by a corporation to be formed by EMI. The offer was 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 Shareholders Rights Plan and the availability of financing. The EMI offer was 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 was expressly not conditioned on retention of current senior management. Subsequent to the withdrawal of its offer, EMI disclosed that it had entered into an agreement with the Oppenheimer-Palmieri Fund, L.P. (the "Fund") pursuant to which EMI and the Fund have agreed to propose nominees mutually agreed upon between them for election to the Board of Directors of the Company at the Annual Meeting of Stockholders of the Company. EMI and the Fund have stated that they intend jointly to pursue the solicitation of proxies to replace the current Board of Directors. In connection therewith, EMI has commenced certain actions against the Company in Delaware Chancery Court. See "Part II. Item 1. Legal Proceedings."

On July 13, 1987, the Company announced that it had terminated its license agreements with Benel, which has operated the concession to sell pre-recorded 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. 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 II. 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 at least \$400,000 by Benel for licensing fees, and, depending upon the outcome of a pending investigation and the matters referred to immediately below, Benel may owe substantially more. Suppliers of Benel have asserted that the Company may be responsible, as a guarantor, for payment of amounts owing by Benel to such suppliers, which are estimated by the suppliers to total approximately \$1.7 million. Such amount has been accrued as a current liability as of August 30, 1987 and charged to "Other income (expense)" in the accompanying Consolidated Condensed Statement of Operations for the three months then ended.

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 August 30, 1987 were \$80.5 million, representing an increase of \$5.7 million, or 7% over the comparable period in the prior fiscal year. New stores in operation and other merchandising activities during the three months ended August 30, 1987 were responsible for an increase of \$25.7 million in sales. The balance of the change (\$20.0 million decrease) resulted from decreased sales from stores that were open throughout both periods, representing a 29.0% comparable store decrease.

Net sales for the six month period ended August 30, 1987 were \$158.5 million, representing an increase of \$19.2 million, or 14% over the comparable period in the prior fiscal year. New stores in operation and other merchandising activities during the six months ended August 30, 1987 were responsible for an increase of \$51.7 million in sales. The balance of the change (\$32.5 million decrease) resulted from decreased sales from stores that were open throughout both periods, representing a 26% comparable store decrease.

Gross profit (net sales less cost of goods sold) decreased by \$5.9 million and \$4.8 million in the three month and six month periods, respectively, ended August 30, 1987 as compared to the corresponding periods in the prior fiscal year. Gross profit margins as percentage of net sales decreased by 9.1% and 6.0% for the three month and six month periods, respectively, ended August 30, 1987 as compared to the corresponding periods in the prior fiscal year. This resulted primarily from fierce competition in the market place and resulting pressure on gross margins.

Selling, general, and administrative expenses as a percentage of net sales approximated 32.7% and 16.1% for the three month periods ended August 30, 1987 and August 31, 1986, respectively. Selling, general, and administrative expenses as a percentage of net sales approximated 29.4% and 16.8% for the six month periods ended August 30, 1987 and August 31, 1986, respectively. The increase in selling, general and administrative expenses as a percentage of sales resulted from the continuing competitive environment in the

consumer electronics industry, costs incurred as a result of recent takeover proposals, severance and other charges associated with the Company's recently instituted program of cost reduction, lower comparable store sales while expenses increased on a comparable store basis, and writing off of pre-opening costs as incurred.

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 \$37.0 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 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. At August 30, 1987, the Company had total working capital of \$125.0 million. During the six months ended August 30, 1987, the Company lost \$8.2 million of working capital from operations. The Company is continuing its losses of working capital and, unless there is a turn-around, the Company may experience serious liquidity problems.

During the fourth quarter of fiscal 1987, the Board of Directors 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.

During the remainder of its 1988 fiscal year, the Company plans to open two new stores, which are expected to be located in Willow Grove, Pennsylvania and Brooklyn, New York. Construction delays have postponed the opening of additional new stores. The Company now plans to open stores during the spring of 1988 in North Haven, Connecticut and during fall of 1988 in Farmington and Danbury, Connecticut.

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 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 was paid on October 7, 1987.

Midland Bank has issued the Company approximately \$232,000 of outstanding letters of credit, which are collateralized by the Company's cash deposits of \$232,000 in Midland Bank.

On September 1, 1986, the Company entered into an agreement with First 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. First RepublicBank has verbally informed the Company that on or about November 15, 1987 the short-term credit and letter of credit facilities may be terminated. First RepublicBank has also verbally requested that all amounts outstanding under the short-term credit facility be collateralized, and the Company has delivered to First RepublicBank debt securities with a current market value of approximately \$28 million as security for the \$27 million balance currently outstanding under the short-term credit facility. No letters of credit are currently outstanding under this facility.

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, which provided for interest on amounts outstanding based on prime, certificate of deposit, LIBOR or money market fund rates. As of October 14, 1987, no funds are outstanding under the credit line and approximately \$550,000 of letters of credit are issued and outstanding. Sixty-seven thousand, five hundred dollars of such letters of credit are collateralized by the Company's cash deposits of such amount in Chemical Bank. In June 1986, 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 providing for a secured line of credit. The facility is secured by United States Treasury securities. As of October 14, 1987, \$13 million of letters of credit are issued and outstanding under such facility. On October 7, 1987, a short-term secured demand loan in the amount of \$7.5 million was obtained from Midlantic National Bank. Such loan is presently secured by \$3 million of United States Treasury securities and by a lien on the Company's headquarters facility in Edison, New Jersey pursuant to the terms of an indenture, which indenture is expected to be replaced shortly by formalized mortgage documents for such property. 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.

Part II. Other Information
 Item 1. Legal Proceedings

The Securities and Exchange Commission (the "Commission") has issued an Order of Investigation pursuant to which it has requested and received certain documents from the Company and the testimony of certain employees of the Company. The Company is cooperating with the Commission.

The Company is cooperating with the United States Attorney for the District of New Jersey in connection with an ongoing federal grand jury investigation into practices related to claims made for compensation and/or reimbursement for repairs and parts made and provided by the Company under manufacturers' warranties. 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. On October 12, 1987, the Company's Board of Directors authorized the Company to advance the legal expenses for the retention of independent legal counsel for certain employees (including David V. Panoff, an officer and director) who are expected to give testimony in the course of the investigation.

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 \$3.6 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. 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 and 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 the Company 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).

The Bankruptcy Court has designated December 9, 1987 for the hearing on the application for preliminary injunctive relief and continued the temporary restraining order until that time. The movants have served a complaint embodying their claims against respondents, and the parties are currently conducting discovery proceedings.

On July 23, 1987, EMI commenced an action against the Company, captioned Entertainment Marketing Incorporated v. Crazy Eddie, Inc., Civil Action No. 9125, in the Court of Chancery of the State of Delaware, New Castle County, to demand that EMI be provided with a list of stockholders of the Company's Common Stock pursuant to Section 211 of the Delaware General Corporation Law (the "GCL"). EMI stated that its purpose in seeking such a list was to communicate with stockholders of the Company regarding the affairs of the Company, including EMI's proposal at that time to acquire all of the outstanding Common Stock of the Company. On August 7, 1987, the Company and EMI entered into a stipulation and order approved by the Chancery Court providing that EMI would receive stockholder list information as of that date and for a period of 30 days thereafter. On September 25, 1987, the parties entered into a further stipulation and order providing that EMI would receive stockholder list information for the period from October 6, 1987, the record date for the Company's 1987 Annual Meeting of Stockholders (the "Annual Meeting") to November 6, 1987, the date scheduled for the Annual Meeting.

On August 27, 1987, EMI commenced an action against the Company, captioned Entertainment Marketing Incorporated v. Crazy Eddie, Inc., Civil Action No. 9211, in the Court of Chancery of the State of Delaware, New Castle County, to compel the Company to hold an annual meeting of stockholders for the election of directors pursuant to Section 220 of the GCL. On September 21, 1987, the Company and EMI entered into a stipulation and order approved by the Chancery Court providing that the record date and meeting date for the Annual Meeting, as set by the Company's Board of Directors, will not be changed without the consent of EMI or the Chancery Court.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.82 Employment Agreement between the Company and Eddy Antar, dated as of September 23, 1987.
- 10.83 Employment Agreement between the Company and Sam E. Antar, dated as of September 23, 1987.
- 10.84 Employment Agreement between the Company and Solomon E. Antar, dated as of September 23, 1987.
- 10.85 Employment Agreement between the Company and Isaac Kairey, dated as of September 23, 1987.
- 10.86 Employment Agreement between the Company and Edmond Levy, dated as of September 23, 1987.
- 10.87 Employment Agreement between the Company and David V. Panoff, dated as of September 23, 1987.
- 10.88 Employment Agreement between the Company and Steven Pasquariello, dated as of September 23, 1987.

(b) Reports on Form 8-K

On June 8, 1987, the registrant filed a report on Form 8-K reporting in Items 5 and 6, "Other Events" and "Resignations of Registrant's Directors," the resignation on June 5, 1987 of Mitchell Antar as a director, Executive Vice President and Chief Operating Officer and a member of the Office of the President of the Registrant.

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 19, 1987
(Date)

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