

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
Annual Report Pursuant to
Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended
March 1, 1987

Commission file number
2-91259

CRAZY EDDIE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(state or other jurisdiction of
incorporation or organization)

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

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

08817
(Zip Code)

Registrant's telephone number including area code
201-248-1410

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value \$.01 per share
(Title of Class)

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

As of June 8, 1987, 30,868,180 shares of common stock of the Company were outstanding. The aggregate market value of these shares (based upon the closing market price of the Company's common stock on the NASDAQ National Market System on June 8, 1987, as reported in The Wall Street Journal) held by non-affiliates was approximately \$227,597,159.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

ITEM 1. BUSINESS.

Crazy Eddie, Inc., incorporated in Delaware in December 1983, is the successor to Crazy Eddie, Inc., a New York corporation, which was formed in 1975 and merged into the Company in September 1984 prior to the consummation of the Company's initial public offering of common stock. Unless the context otherwise requires, references to the "Company" relate to Crazy Eddie, Inc., its subsidiaries and their predecessors.

The Company sells home entertainment and consumer electronic products through a chain of retail stores located in New York, New Jersey, Connecticut, and Pennsylvania. All of the Company's stores are operated under the Crazy Eddie name, and are located in New York City or within the surrounding 150-mile radius. During the fiscal year ended March 1, 1987, the Company expanded beyond the tri-state New York metropolitan area by opening two stores in the Philadelphia metropolitan area. A third store was opened subsequent to the end of the fiscal year.

During the 1987 fiscal year, the Company introduced the sale of jewelry on a limited basis in four stores, announced a plan (which, as of the date hereof, has not been implemented) to begin to sell large household appliances (such as refrigerators, washing machines and dryers), and test marketed a cable television shopping network. The Company has suspended operation of the cable television venture and subleased to an unrelated third party the satellite transponder used for shopping network broadcasts.

The Company's corporate headquarters is located at 140 Carter Drive, Edison, New Jersey 08817 and its telephone number is 201-248-1410. Purchasing, personnel, accounting, advertising and merchandising management are centralized at the Company's corporate headquarters. During the third quarter of fiscal 1987, the Company moved its corporate headquarters to this new location which, in addition to providing more space, houses a retail outlet, a central service center and warehouse facilities. Subsequent to March 1, 1987, the Company relocated its principal distribution center from the Edison headquarters to a larger facility located in East Brunswick, New Jersey.

Products

The Company offers customers a broad range of high quality products and selection from over 500 brand names of merchandise, including Panasonic, General Electric, Sony, Hitachi, Toshiba and Fisher. The Company's products may be grouped as follows:

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

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

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

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

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

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

Miscellaneous items product group includes microwave ovens, air conditioners, electric fans, small home appliances, jewelry, and other miscellaneous items, car stereo installation and extended warranty contracts

offered by the Company for most audio, video and computer merchandise sold and for certain other items.

The table below shows the approximate percentage of the Company's combined sales for the fiscal year ended March 1, 1987 attributable to each of the foregoing product groups:

<u>Product Group</u>	<u>Percentage of Total Sales</u>
Television and video.....	53%
Audio and audio systems.....	15%
Portable and personal electronics.....	10%
Computers and games.....	3%
Accessories and tapes.....	4%
Car stereo.....	5%
Miscellaneous items.....	<u>10%</u>
	<u>100%</u>

The percentage of sales accounted for during any period by each product group is affected by promotional activities, consumer trends and the development of new products. Management believes, however, that the Company is not dependent on any one product line or on any single vendor or several major vendors, and that competitive sources of supply are available for all of the Company's merchandise.

Working Capital Items

A central purchasing department monitors current sales and tracks inventory on a daily basis. A computerized point-of-sale system is currently being installed in all Crazy Eddie stores to enhance the Company's ability to monitor sales, inventory and reordering needs. The Company generally purchases inventory directly from vendors who extend open lines of credit that are sometimes secured by the products sold. Substantially all inventory purchased by the Company is shipped directly to its central distribution facility located in East Brunswick, New Jersey. Each Crazy Eddie store receives shipments of inventory from the central distribution facility several times a week, and often on a daily basis, thereby increasing convenience to customers by enabling each store to maintain substantial inventories of all products and to replenish promptly inventories of fast-moving products. Inventory turned over 3.2 times during the fiscal year ended March 1, 1987.

Sales to customers are primarily made on a cash or major credit card basis. The Company accepts the following credit cards: Visa, MasterCard, American Express and

Discover. Finance charges on credit card sales during the fiscal year ended March 1, 1987 approximated \$3,338,000.

All products except jewelry sold in Crazy Eddie stores carry a 30-day price protection guaranty pursuant to which the store will refund the difference between its sold price and any lower price for the same product that is demonstrated by the customer to be available at any other store. In addition, merchandise sold may be exchanged for the same or other products or for store credit within seven days of the sale.

Seasonality

Historically, the Company has realized greater sales during the Christmas season, than in other fiscal quarters of the year. The Company's marketing strategy and, in particular, its steady use of radio and television advertising is intended to minimize the seasonality of the Company's sales. The Company's net sales for the three months ended March 1, 1987 were \$122.1 million, as compared to \$99.8 million for the corresponding period a year ago. Net sales for the fiscal year ended March 1, 1987 were \$352.5 million as compared to \$262.3 million for the fiscal year ended March 2, 1986.

Servicemarks

The "Crazy Eddie," "Record and Tape Asylums," "Crazy Eddie Record and Tape Asylums," "His Prices Are Insane" and "Blowout Blitz" marks, and the Company's logo, are servicemarks registered with the United States Patent and Trademark Office and owned by the Company. The "Crazy Eddie" and "His Prices Are Insane" marks, as well as the Company's logo, are an integral part of the Company's advertising and important to the Company's business. The "Crazy Eddie Record and Tape Asylums" and certain other of the Company's servicemarks are licensed by the Company for use by Benel Distributors, Ltd., a New York corporation which operates the record and tape concession in each Crazy Eddie store except the Edison, New Jersey store. See "Certain Relationships and Related Transactions -- Benel."

Competition

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

The Company competes on the basis of pricing, product offering and customer service as promoted through an aggressive mass-media advertising campaign. Most of the Company's advertisements appear on radio and television, although the Company also advertises in New York City and certain local newspapers. The Company's radio and television advertising has as its theme "Crazy Eddie -- His Prices Are Insane!", and advertisements feature a local radio announcer who seeks to convey to customers the Company's message of price, selection and service in an energetic and humorous manner.

Pricing. The Company believes that its sales volume, together with the consumer recognition of its name, provides the Company with significant purchasing power which permits the Company to sell its merchandise to customers at prices that it believes to be lower than those offered by most of its competitors. In addition, all products except jewelry sold in Crazy Eddie stores carry a 30-day price protection guaranty. Certain of the Company's major competitors have adopted similar pricing and guaranty policies.

Product Offering. The broad selection of products offered by the Company and the manner in which they are displayed enable the Company to change easily the variety and emphasis of its products and to expand displays of promotionally-priced or fast-moving items. This flexibility permits the Company to introduce new products, including products utilizing emerging technologies, and, at the same time, to maintain sales in existing product lines. Because the products sold by the Company attract customers of all ages, the Company does not focus its marketing efforts on any particular age group.

Customer Service. At each Crazy Eddie store, trained sales personnel are instructed to seek to assist customers in their purchases by demonstrating products and providing information desired by the customer with respect to price, quality and other matters. The Company's store hours are intended to make Crazy Eddie stores more accessible to customers than the stores of competitors, particularly for those customers who are unable to shop during ordinary business hours. The Company maintains a service department on the premises of each Crazy Eddie store (except the Edison, New Jersey store, which adjoins the Company's corporate headquarters housing the Company's central service center), and also employs approximately 70 full-time employees at a central service center which is utilized by each of the stores when extensive servicing or repair is required.

The Company offers its own extended warranty contracts for most audio, video and computer merchandise sold and for certain other items, pursuant to which the Company provides extended warranty coverage beyond the warranty period covered by the manufacturer. The Company also provides periodic maintenance services with respect to certain types of its merchandise.

Employees

The Company employs approximately 2,250 persons, including approximately 400 persons who are employed in the Company's corporate headquarters and central service center.

Recent Developments

Board of Directors; Executive Officers. On December 19, 1986, the following persons were elected to the Company's Board of Directors: Sam E. Antar, Solomon E. Antar, Isaac Kairey, Edmond Levy, David V. Panoff and Steven Pasquariello. On March 17, 1987, Sam Antar resigned from the Board and William H. Saltzman was elected to fill the vacancy created thereby.

On December 22, 1986, the Company formed an Office of the President to which the following executives were elected: Mitchell Antar, Executive Vice President and Chief Operating Officer; Sam E. Antar, Executive Vice President and Chief Financial Officer, and Isaac Kairey, Executive Vice President - Operations. As of such date, Eddie Antar resigned as President of the Company and on January 8, 1987, he resigned as Chief Executive Officer. Eddie Antar remains as Chairman of the Board. See "Directors and Executive Officers of the Registrant." On June 5, 1987, Mitchell Antar resigned as a director, Executive Vice President and Chief Operating Officer and a member of the Office of the President of the Company. The Company filed with the Securities and Exchange Commission (the "Commission") on June 8, 1987 a Current Report on Form 8-K disclosing Mitchell Antar's resignation.

On May 1, 1987, the Board of Directors of the Company established an Executive Committee (the "Executive Committee") vested with all the powers and duties of the Board of Directors in the management of the business of the Company while the Board of Directors is not in session. Elected to the Executive Committee were William H. Saltzman, James H. Scott, Jr. and Eddie Antar, who was appointed Chairman thereof. On May 4, 1987, the Executive Committee eliminated the office of Executive Vice President of the Company held by Sam Antar and terminated the employment of Sam Antar as an employee of the Company as of May 14, 1987, subject to his prior resignation. These actions of the

Executive Committee were approved and ratified by a majority vote of the Board of Directors on May 29, 1987.

Adoption of Shareholder Rights Plan. 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. A description and terms of the Rights 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 has been filed with the Commission 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 "Legal Proceedings."

Buy-Out Proposals. 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") 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 June 12, 1987, 16 alleged class actions 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 "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. As of the date of its offer, EMI, together with its Chairman Elias Zinn, claimed to have owned in the aggregate approximately 4.3% of the Company's outstanding Common Stock. 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.

ITEM 2. PROPERTIES.

The 39 existing Crazy Eddie stores are all located within a 150-mile radius of New York City. Twenty-one of these stores are located in New York, 12 are in New Jersey, four are in Connecticut and two are in Pennsylvania. The New York stores include 11 stores in New York City (seven located in the Borough of Manhattan, two in the Borough of Queens, one in the Borough of Brooklyn and one in the Borough of Staten Island), five on Long Island, two in Westchester County, one in Rockland County, one in Dutchess County and one in Orange County. The Company has signed leases for six additional stores that are expected to open during the remainder of the 1988 fiscal year, of which one will be located in New York, three in Connecticut, and two in Pennsylvania. During the third quarter of fiscal 1987, the Company completed the expansion of retail selling space at its existing stores in Totowa, New Jersey, Norwalk, Connecticut and Orange, Connecticut. In addition, the Company has signed a lease for expansion of its Hamden, Connecticut store.

Crazy Eddie stores generally are situated on major commercial thoroughfares and are conveniently accessible to established urban neighborhoods or major residential areas

in suburban neighborhoods. The Company's general policy is to lease its stores in order to limit its investments in fixed assets and increase the availability of capital for other purposes; however, the Company owns its corporate headquarters building which houses the Edison, New Jersey store and has purchased a building that houses its store in Flushing in the Borough of Queens in New York City. All of the Crazy Eddie stores (other than the Edison and Flushing stores) are leased from unrelated parties, except the store located in Union, New Jersey which is leased from Eddie Antar and Sam Antar, the Chairman of the Board, and a former Executive Vice President and director of the Company, respectively, and the store located on East 86th Street in New York City is leased from a corporation controlled by the father-in-law of Sam E. Antar, Executive Vice President and Chief Financial Officer, a member of the Office of the President and a director of the Company. The Company operates all of the space in each of its stores and does not lease any space to any third party concessionaires, other than pursuant to licensing agreements with Benel Distributors, Ltd. See "Certain Transactions and Related Transactions -- Benel." In addition, the Company has subleased to unrelated third parties a portion of the properties that the Company leases on Avenue of the Americas in New York City and in Hartsdale and Massapequa, New York because the Company currently has excess space at these properties.

The Company's store leases in each case provide for a base rental and do not provide for a percentage of sales rental in addition to the fixed minimum rent. The leases are net leases requiring that, in addition to a fixed rent, the Company maintain and repair the leased premises at its own expense and pay all real estate taxes, utilities, insurance, heating and air conditioning costs. See Note 6 of Notes to Consolidated Financial Statements. The Company receives refunds of real estate commissions paid in connection with certain leases. As of June 8, 1987, the Company had received approximately \$86,500 in refunded commissions with respect to leases entered into during the fiscal year ended March 1, 1987.

The table below sets forth certain information concerning the Company's 39 existing stores and the six stores scheduled to open before the end of fiscal 1988.

<u>Store Location</u>	<u>Year Opened</u>	<u>Approximate Selling Area (square feet)</u>
405 Ave. of the Americas New York, New York	1975	1,870
2067 Coney Island Avenue Brooklyn, New York (1)	1977	5,864

<u>Store Location</u>	<u>Year Opened</u>	<u>Approximate Selling Area (square feet)</u>
809 Route 17 Paramus, New Jersey	1977	5,779
269 Route 18 East Brunswick, New Jersey	1978	8,423
2155 Route 22 West Union, New Jersey (2)	1979	4,400
393 North Central Avenue Hartsdale, New York	1979	6,692
401 Old Country Road Carle Place, New York	1980	7,871
212 East 57th Street New York, New York	1981	5,316
420-440 Westport Avenue Norwalk, Connecticut	1983	7,223
Route 46 West and Riverview Drive Totowa, New Jersey	1983	5,312
1010 Smithtown Bypass Nesconset, New York	1984	4,398
350 Jericho Turnpike Syosset, New York (3)	1984	3,607
165 East 86th Street New York, New York (4)	1984	2,650
30 Jensen Street Fords, New Jersey	1984	2,920
175 Rockland Center Nanuet, New York	1985	4,950

<u>Store Location</u>	<u>Year Opened</u>	<u>Approximate Selling Area (square feet)</u>
89-22 Queens Boulevard Elmhurst, New York	1985	3,032
1000 Sunrise Highway Massapequa, New York	1985	3,240
150 Broadway New York, New York	1985	4,625
449 West Mount Pleasant Avenue Livingston, New Jersey	1985	2,616
116 Boston Post Road Orange, Connecticut	1985	9,327
25 West 45th Street New York, New York	1985	1,955
37-08 Main Street Flushing, New York (5)	1985	3,500
999 Third Avenue New York, New York	1986	1,591
2186 Broadway New York, New York	1986	3,672
2821 Richmond Avenue Staten Island, New York	1986	4,940
804 South Road Poughkeepsie, New York	1986	5,520
2165 Dixwell Avenue Hamden, Connecticut	1986	4,014
660 West Sunrise Highway Valley Stream, New York	1986	4,298
2100 Route 38 Cherry Hill, New Jersey	1986	11,731
1610 Rt. 35 South Ocean, New Jersey	1986	4,700

<u>Store Location</u>	<u>Year Opened</u>	<u>Approximate Selling Area (square feet)</u>
150 Carter Drive Edison, New Jersey (6)	1986	4,382
11000 Roosevelt Blvd. Philadelphia, Pennsylvania	1986	9,600
1272 Hooper Avenue Toms River, New Jersey	1987	3,999
20 Hazard Avenue Brookside Plaza Enfield, Connecticut	1987	6,857
1260 Black Horse Pike Egg Harbor, New Jersey	1987	6,967
10 Mercer Mall Lawrenceville, New Jersey	1987	8,278
Aramingo & Tioga Avenue Philadelphia, Pennsylvania	1987	8,415
750 Central Park Avenue Yonkers, New York	1987	7,100
Route 211 and Certified Drive Middletown, New York	1987	8,850

New Store Locations

Bridgeport, Connecticut
Farmington, Connecticut
North Haven, Connecticut
Willow Grove, Pennsylvania
Brooklyn, New York
Philadelphia, Pennsylvania

- (1) This store replaced an earlier store that was opened in 1973.
- (2) This store is leased by the Company from Eddie Antar and Sam Antar.
- (3) This store, which opened in November 1984, replaced an earlier store that was opened in 1974 at a nearby location.
- (4) On March 31, 1984, the lease for a store at 1496 Third Avenue, New York, New York expired. Renewal of this

lease was not possible and the Company decided to relocate such store to larger premises at this nearby site. The Company opened this store in September 1984. The store is leased from a corporation controlled by the father-in-law of Sam E. Antar, who was elected Controller of the Company in June 1985, and is currently Executive Vice President and Chief Financial Officer, a member of the Office of the President and a director of the Company. The Company believes that the terms of this lease, which expires in April 1994, are no less favorable to the Company than the terms of similar leases of other stores entered into by the Company in arm's-length transactions with unaffiliated parties.

- (5) The Company has purchased the building in which this store is located, subject to an existing lease which expires in 1993 and which has been assigned to and assumed by the Company. As security for its obligations as assignee under such lease, the Company has executed a re-assignment and assumption of lease, which is being held in escrow.
- (6) This store is located at the Company's new corporate headquarters facility in Edison, New Jersey. See "Company Headquarters" below.

On April 27, 1986, the Company closed its store located at 300 East Fordham Road, Bronx, New York. The Company's central service center has been relocated from this location (where it occupied 3,800 square feet) to its headquarters facility in Edison, New Jersey. See "Company Headquarters" below.

The lease signed by the Company for a planned Stamford, Connecticut location has been surrendered to the landlord who has leased such premises to an unrelated third party commencing September 1, 1987 for a term coextensive with that remaining on the Company's lease. The Company has guaranteed amounts due from such third party under the new lease to the extent of the Company's liability under the original lease.

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

<u>Calendar</u>	<u>Number of Store Leases Expiring</u>
1987-1989.....	2
1990-1992.....	5
1993-1995.....	4
1996-1998.....	5
1999-2002.....	17
2003-2005.....	0
2006-2009.....	6
2010-2012.....	4

The Company sub-subleases from Kelso Industries, Inc., a corporation wholly-owned by Eddie Antar and Sam Antar, a 20,000 square foot facility at 2845 Coney Island Avenue in Brooklyn, New York in which the Company formerly had its corporate headquarters and which is currently being utilized for storage of the Company's books and records and supplies. The sub-sublease expired March 30, 1987, at which time the Company exercised its option to renew the lease for a one-year term expiring March 30, 1988 at an annual rent in the amount of \$61,000. The Company's rental payments under the sub-sublease are equal in amount to those that Kelso Industries pays to the sublessor. The Company is contemplating relocating its store from 2067 Coney Island Avenue to this location which would provide additional selling space and ample parking. The Company is actively seeking a subtenant for its property at 2067 Coney Island Avenue, which lease expires in February 1997.

The Company leases premises in close proximity to its former corporate headquarters, which are used as a car stereo installation center. The Company also has leased 315,000 square feet of warehouse space in East Brunswick, New Jersey for a five-year period expiring March 31, 1992, to accommodate its increased storage requirements and to serve as a central distribution center. The Company has subleased 8,100 square feet of excess truck loading space at the East Brunswick facility to a corporation from which the Company leases trucks, pursuant to a sublease expiring upon the termination of the business relationship between the Company and such truck lessor, but in no event later than the expiration date of the overlease, which provides for annual rental payments of \$26,000. In addition, a subsidiary of the Company leases premises in the Borough of Manhattan in the City of New York, which serve as a showroom and provide offices for the subsidiary's professional audio and video installation business.

Company Headquarters

The Company completed the relocation of its corporate headquarters to Edison, New Jersey during the

third quarter of the 1987 fiscal year. The new location has approximately 210,000 square feet of space, of which 102,000 square feet house the Company's new executive offices, a retail store, a central service center and a warehouse. On June 1, 1987, the Company leased approximately 73,000 square feet of excess warehouse space to an unrelated party pursuant to a lease expiring March 31, 1988, which provides for monthly rental payments of \$27,000, with options to renew through December 31, 1988 at a rent of up to \$32,143 per month. The remaining space has been leased by the Company on a short-term basis to Benel Distributors, Ltd. To finance the construction of the Company's headquarters as well as the acquisition of the property on which it is located, the Company borrowed \$7,800,000 from the New Jersey Economic Development Authority (the "Authority") in December 1984. See Note 8 of Notes to Consolidated Financial Statements. This loan was repaid in full on October 31, 1986. On February 9, 1987, the Company borrowed \$7,680,000 on an unsecured basis from a commercial bank, at a fixed interest rate of 7.6%. This loan is scheduled to mature on February 9, 1989. The Company is currently in the process of negotiating with the bank to convert the loan into a five-year commercial mortgage secured by the building in which the Company's headquarters is located.

Planned Expansion

The Company has signed leases for six additional stores, which are expected to open during the remainder of the 1988 fiscal year.

During the fiscal year ended March 1, 1987, the Company expanded beyond the tri-state New York metropolitan area by opening stores in the Philadelphia-Southern New Jersey metropolitan area and in Central and Northern Connecticut. Expansion into these new markets has resulted in increased advertising costs and other expenses as such stores do not fall within the Company's existing New York metropolitan area "advertising umbrella" which has traditionally enabled the Company to realize extensive radio and television advertising and other efficiencies and cost benefits as a result of the geographic concentration of stores. The Company's current expansion objective is to focus on the geographic market within a 150-mile radius of New York City in order to continue to take advantage of its ability to service all Crazy Eddie stores through central warehouse and repair facilities, to shift personnel among the stores as needed and to have its executives visit any store location on short notice. The Company anticipates that it may further extend its geographic market in future years.

ITEM 3. LEGAL PROCEEDINGS.

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

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 has been requested to furnish certain documents in connection with an inquiry that has been commenced by the Commission since the filing with the Commission on May 22, 1987 by Eddie Antar and First City Capital Corporation of a Schedule 13D relating to their ownership of Common Stock of the Company. The Company is cooperating with the Commission.

The Company and 20 of its wholly-owned subsidiaries are defendants in an action filed by the New York State Attorney General on December 1, 1986 in New York Supreme Court, New York County, which was subsequently removed, on the Company's petition, to the United States District Court, Southern District of New York. The petition alleges that the Company and 20 of its stores (each of which is an individually incorporated wholly-owned subsidiary of the Company) violated provisions of the New York Energy Law by repeatedly advertising, offering and selling new room air conditioners in New York State which failed to comply with the minimum energy efficiency requirements of New York State. The petition also alleges that the Company and its subsidiaries have sold no fewer than 2,461 of such air

conditioners and seeks (i) to enjoin the Company from advertising, offering for sale or selling non-complying air conditioners; (ii) restitution to all those who purchased non-complying air conditioners; (iii) an accounting of the number of non-complying air conditioners actually sold; and (iv) payment of \$250 for each such violation. Thus, the petition seeks penalties in an aggregate amount no less than, and perhaps considerably more than, \$615,250. On December 1, 1986, the Company and 23 of its subsidiaries filed a complaint in the United States District Court, Southern District of New York, against William Cotter, in his official capacity as Commissioner of the New York State Energy Office, Robert Abrams, in his official capacity as Attorney General of the State of New York (collectively, the "state defendants"), and several companies which supply air conditioners to the Company. The complaint seeks a declaratory judgment that the New York State Energy Law is superseded and pre-empted by the Federal Energy Policy & Conservation Act, and that air conditioners which comply with the federal law may be sold in New York State. The complaint seeks to enjoin the state defendants from interfering with the right of the Company and its subsidiaries to sell air conditioners which comply with federal law. The complaint also seeks to hold the suppliers liable for breach of contract to the extent that the New York Energy Law is held applicable to the Company and its subsidiaries. New York State has filed a motion to dismiss the Company's federal action for declaratory and injunctive relief and a motion to remand to state court the proceeding originally commenced there by New York State. The Company has opposed the dismissal of its federal case, has cross-moved for summary judgment on its declaratory and injunctive claims, and has also opposed the remand of the State petition to the state court.

The Company is a defendant in two alleged shareholders' class actions in the United States District Court, Eastern District of New York. The Company's Chairman, Eddie Antar, also is a defendant in each case.

In Vivian G. Bernstein, as custodian for Jamie A. Bernstein v. Crazy Eddie, Inc. and Eddie Antar, dated and filed January 7, 1987, the plaintiff claims that the Company and Eddie Antar violated the federal securities laws by failing to disclose information regarding the alleged existence of certain sales practices investigated by the New York City Department of Consumer Affairs, and that Mr. Antar engaged in "insider trading" when he sold stock of the Company on November 10, 1986. The plaintiff seeks damages of an unspecified amount for shareholders who purchased shares between June 2, 1986 and January 5, 1987. On April 6, 1987, the Company moved for judgment on the pleadings dismissing the complaint. The motion is still pending.

In Kaun v. Crazy Eddie, Inc. and Eddie Antar, filed on March 11, 1987, the plaintiff charges that the Company and Eddie Antar violated the federal securities laws by failing to disclose worsening comparable store sales before announcements in the Company press releases dated December 4, 1986 and January 5, 1987. The complaint also claims that Eddie Antar engaged in "insider trading." Damages of an unspecified amount are sought for the class of shareholders who purchased shares between November 10, 1986 and January 5, 1987.

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

On May 21, 22, 26, 27 and 28, and June 4, 1987, 16 alleged class actions on behalf of current holders of Crazy Eddie Common Stock, except the named defendants, were brought in the Delaware Court of Chancery, New Castle County. Each of the suits 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 named defendants. Some but not all of the suits allege in substance that the buy-out proposal is the culmination of a scheme designed to depress the price of shares of the Company's Common Stock in order to facilitate their acquisition at a low price by Eddie Antar and others. See "Business -- Recent Developments -- Buy-Out Proposals."

Each suit seeks to enjoin the proposed buy-out. Most of the suits seek, in addition, to rescind the buy-out should it occur before trial, and unspecified damages. No monetary relief is sought from the Company in the Warren, Schwartz and Hayman cases listed below.

The Company expects the suits to be consolidated in the near future. The individual suits presently are captioned as follows:

1. Dated May 21, 1987:

(a) Bruce Berman v. Crazy Eddie, Inc., Eddie Antar, Sam Antar, Mitchell Antar, Eddy Antar, James H. Scott, Jr., Carl G. Zane and First City Capital Corp. The Company believes that "Carl G. Zane" is a mistaken reference to Carl G. Zimel, a former director and a current employee of Crazy Eddie, Inc.

(b) Leonard Eisner v. Crazy Eddie, Inc., Eddie Antar, Sam E. Antar, Mitchell Antar, Eddy Antar, James H. Scott, Jr., Carl Zimel, Isaac Kairey and First City Capital Corp.

(c) Adam Greenfield v. Crazy Eddie, Inc., Eddie Antar, First City Capital Corp. and John Does 1 through 10.

(d) John and Harriet Papastamatakis v. Crazy Eddie, Inc., Eddie Antar, Sam E. Antar, Mitchell Antar, Eddy Antar, James H. Scott, Jr., Carl Zimel, Isaac Kairey and First City Capital Corp.

(e) Moshe J. Schwartz, Jeffrey Abrams, Stanley Heineman and James T. Cain v. Eddie Antar, Sam Antar, Mitchell Antar, Eddy Antar, Sam E. Antar, Solomon E. Antar and Crazy Eddie, Inc.

(f) Edward Stett v. Crazy Eddie, Inc., Eddie Antar, First City Capital Corp. and John Does 1 through 10.

(g) Three Bridges Investment Group v. Crazy Eddie, Inc., Eddie Antar, First City Capital Corp. and John Does 1 through 10.

(h) Steven Warren and Michael Roth v. Eddie Antar, Sam Antar, Mitchell Antar, Eddy Antar, Sam E. Antar, Solomon E. Antar and Crazy Eddie, Inc.

2. Dated May 22, 1987:

(a) Jack N. Hayman and Richard Schlesinger v. Eddie Antar, Sam Antar, Mitchell Antar, Eddy Antar, Sam E. Antar, Solomon E. Antar and Crazy Eddie, Inc.

(b) Salvatore Laurenzano v. Crazy Eddie, Inc., Eddie Antar, Sam E. Antar, Mitchell Antar, Eddy Antar, James H. Scott, Jr., Carl Zimel, Isaac Kairey and First City Capital Corp.

(c) Barnett Stepak, individually and on behalf of all those similarly situated, v. Crazy Eddie,

Inc., Eddie Antar, Sam E. Antar, Mitchell Antar, Eddy Antar, James H. Scott, Jr., Carl G. Zimel, Isaac Kairey and First City Capital Corp.

(d) Tab-Fairfield v. Crazy Eddie, Inc., Eddie Antar, and First City Capital Corp.

3. Dated May 26, 1987:

(a) Daniel Cohen v. Crazy Eddie, Inc., Eddie Antar, Sam Antar, Mitchell Antar, Eddy Antar, James H. Scott, Jr., Carl G. Zane and First City Capital Corp.

4. Dated May 27, 1987:

(a) Karen Kaun v. Eddie Antar, Sam Antar, Mitchell Antar, Eddy Antar, Sam E. Antar, Solomon E. Antar and Crazy Eddie, Inc.

5. Dated May 28, 1987:

(a) Duncan Hoffman v. Crazy Eddie, Inc., Eddie Antar, Sam E. Antar, Mitchell Antar, Eddy Antar, James H. Scott, Jr., Carl Zimel, Isaac Kairey and First City Capital Corp.

6. Dated June 4, 1987:

(a) James Goldslager v. Crazy Eddie, Inc., Eddie Antar, Sam E. Antar, Mitchell Antar, Eddy Antar, James H. Scott, Jr., Carl Zimel, Isaac Kairey and First City Capital Corp.

The Company and several of its present or former officers and/or directors are also 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. The 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 complaint seeks to have the Company's Shareholder Rights Plan declared invalid, enjoin its operation and/or have the rights issued thereunder redeemed. The complaint also requests an order requiring the defendants to seek potential acquirers and offer confidential information evidencing significant value in the Company. On June 4, 1987, the plaintiff moved 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) to provide potential acquirers of Common Stock of the Company all information they may request pertinent to the financial condition of the Company. On June 10, 1987, an order to show cause why the defendants should not be preliminarily enjoined from enforcing the Shareholder Rights Plan and taking any actions to consummate the buy-out proposals for the Company issued from the United States District Court, District of New Jersey. The defendants will also be required to show cause why they should not redeem the Shareholder Rights Plan and provide potential acquirers with all information they may request that is pertinent to the financial condition of the Company. The order to show cause is returnable on June 26, 1987.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable

PART II

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

The Company's common stock, par value \$.01 per share ("Common Stock"), is traded in the over-the-counter market (symbol: CRZY). Since February 12, 1985, the Company's Common Stock has been quoted on the NASDAQ National Market System.

The following table sets forth, for the calendar periods indicated, the high and low bid prices for the Company's Common Stock from January 1, 1985 to February 12, 1985 and the high and low sale prices for the Company's Common Stock on the National Market System from and after February 12, 1985, in each case as reported by National Quotation Bureau Incorporated. The bid prices for the period prior to February 12, 1985 reflect inter-dealer prices without retail mark-up, mark-down or commission and do not necessarily represent actual transactions. National Market System quotations, which began on February 12, 1985, are based on actual transactions and not bid prices. The quoted prices have been adjusted to give retroactive effect to a two-for-one stock split which the Company paid in the form of a one hundred percent stock dividend on July 31, 1985 to all stockholders of record on July 12, 1985 (the

"1985 Stock Dividend") and a two-for-one stock split which the Company paid in the form of a one hundred percent stock dividend on September 30, 1986 to all stockholders of record on September 9, 1986 (the "1986 Stock Dividend"). The 1985 Stock Dividend and the 1986 Stock Dividend are hereinafter collectively referred to as the "Stock Dividends."

	<u>High</u>	<u>Low</u>
<u>1985</u>		
First Quarter.....	5-13/32	2-23/32
Second Quarter.....	7-23/32	4-29/32
Third Quarter.....	7-1/4	5-5/16
Fourth Quarter.....	9-5/8	5-9/16
<u>1986</u>		
First Quarter.....	15-1/8	9-3/16
Second Quarter.....	19-3/16	13-1/8
Third Quarter.....	21-5/8	15-3/4
Fourth Quarter.....	20-1/8	11-1/4
<u>1987</u>		
First Quarter.....	11-5/8	7-3/8
Second Quarter (through June 8, 1987).....	8-3/4	4-5/8

As of June 8, 1987 there were 2,547 holders of record of the Common Stock, excluding holders whose stock is held in nominee or street name by brokers.

The Company has never declared or paid any cash dividends on its Common Stock. The present policy of the Board of Directors is to retain earnings in order to provide funds for the expansion and development of the Company's business. Accordingly, the Company does not anticipate paying any cash dividends to the holders of the Common Stock in the foreseeable future.

During the fiscal year ended March 1, 1987, the Company appointed RepublicBank Dallas, National Association as the transfer agent for its Common Stock and 6% Convertible Subordinated Debentures. Bank Leumi Trust Company of New York previously served as transfer agent for the Company.

ITEM 6. SELECTED FINANCIAL DATA.

(In thousands, except per share data)

	Year ended March 1, <u>1987</u>	Year ended March 2, <u>1986</u>	Nine months ended March 3, <u>1985 (1)</u>	Year ended May 31, <u>1984</u> <u>1983</u>	
Net sales	\$352,523	\$262,268	\$136,319	\$137,285	\$111,406
Cost of goods sold	<u>272,255</u>	<u>194,371</u>	<u>103,421</u>	<u>106,934</u>	<u>87,719</u>
Gross profit	80,268	67,897	32,898	30,351	23,687
Selling, general and administrative expense	61,341	42,975	20,508	22,560	19,194
Interest and other income	7,403	3,210	1,211	706	594
Interest expense	<u>5,233</u>	<u>820</u>	<u>438</u>	<u>522</u>	<u>450</u>
Income before pension con- tribution and income taxes	21,097	27,312	13,163	7,975	4,637
Pension contribution	500	800	600	--	2,507
Income taxes	<u>10,001</u>	<u>13,268</u>	<u>6,734</u>	<u>4,202</u>	<u>1,235</u>
Net Income	<u>\$ 10,596</u>	<u>\$ 13,244</u>	<u>\$ 5,829</u>	<u>\$ 3,773</u>	<u>\$ 895</u>
Weighted average number of shares(2)	<u>31,204</u>	<u>27,664</u>	<u>24,212</u>	<u>20,000</u>	<u>20,000</u>
Net income per share(2)	<u>\$ 0.34</u>	<u>\$ 0.48</u>	<u>\$ 0.24</u>	<u>\$ 0.18</u>	<u>\$ 0.04</u>
Cash dividends declared per share	\$ --	\$ --	\$ --	\$ --	\$ --
	<u>March 1, 1987</u>	<u>March 2, 1986</u>	<u>March 3, 1985</u>	<u>May 31, 1984 1983</u>	
Working capital (deficiency)	<u>\$153,034</u>	<u>\$ 29,810</u>	<u>\$ 18,794</u>	<u>(\$ 2,136)</u>	<u>(\$ 2,506)</u>
Total assets	<u>\$294,858</u>	<u>\$126,950</u>	<u>\$ 65,528</u>	<u>\$ 36,569</u>	<u>\$ 24,707</u>
Long-term debt	<u>\$ 89,434</u>	<u>\$ 7,701</u>	<u>\$ 7,625</u>	<u>\$ 46</u>	<u>\$ 70</u>
Stockholders' equity	<u>\$ 93,260</u>	<u>\$ 42,621</u>	<u>\$ 23,861</u>	<u>\$ 6,224</u>	<u>\$ 2,951</u>

1) The Company changed its fiscal year end from May 31 to the first Sunday in March, effective March 3, 1985.

2) Adjusted to give retroactive effect to the Stock Dividends.

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

The following table sets forth, for the periods indicated, the relative percentage that certain items in the Company's Consolidated Statement of Operations bear to net sales:

Income and Expense Items
as a percentage of Net Sales

	<u>Year ended March 1, 1987</u>	<u>Year ended March 2, 1986</u>	<u>Nine months ended March 3, 1985</u>
Cost of goods sold	77.2	74.1	75.9
Selling, general and Administrative expense	17.4	16.4	15.0
Interest expense	1.5	.3	.3
Income before pension contribution and income taxes	6.0	10.4	9.7
Pension contribution	.1	.3	.4
Income taxes	2.8	5.0	4.9
Net income	3.0	5.0	4.3

Results of Operations

Year Ended March 1, 1987 Compared to Year Ended
March 2, 1986.

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

Gross profit (net sales less cost of goods sold) increased \$12.3 million for the year ended March 1, 1987 as compared with the year ended March 2, 1986. This increase was primarily due to the increase in sales discussed above. Gross profit as a percentage of sales approximated 22.8% for the year ended March 1, 1987 as compared to 25.9% for the year ended March 2, 1986. This decline resulted from

increased competition and resulting pressure on profit margins. The additional working capital generated from operations and public offerings of the Company's common stock and its convertible debenture offering has enabled the Company to negotiate favorable buying terms with many of the Company's vendors.

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

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

Twelve Months Ended March 2, 1986 Compared to
Twelve Months Ended March 3, 1985.

Net sales for the year ended March 2, 1986 were \$262.3 million, representing an increase of \$95.1 million, or 56.9% over the comparable period ended March 3, 1985. Of this increase, \$78.6 million resulted from the effect of additional stores in operation. Sales to affiliates decreased \$1.9 million during the year ended March 2, 1986. The balance of the increase (\$18.4 million) resulted from increased sales at the stores that were open throughout both periods. Comparable store sales for the 1986 fiscal year rose 17% over the prior year. Sales per square foot rose 22% during 1986 from \$2,368 to \$2,903 per square foot, while average sales per store rose 10% to \$13.3 million compared to \$12.0 million during the twelve months ended March 3, 1985.

Gross profit (net sales less cost of goods sold) increased \$28.3 million for the year ended March 2, 1986, as compared with the year ended March 3, 1985. This increase was primarily due to the increase in sales discussed above. Gross profit as a percentage of sales approximated 25.9% for the year ended March 2, 1986 as compared to 23.6% for the year ended March 3, 1985. (The additional working capital

generated from operations and public offerings of the Company's Common Stock enabled the Company to negotiate improved buying terms with many of the Company's vendors.) In addition, the increase in sales of service contracts increased gross profit by approximately 1.0%.

Selling, general and administrative expenses increased by \$16.5 million during the year ended March 2, 1986, which increase principally reflects the costs of operating the eight new stores opened. The increase in percentage of selling, general and administrative expenses to sales during the year ended March 2, 1986 (16.4% compared to 15.8% during the year ended March 3, 1985) primarily resulted from the Company authorizing bonuses, writing off the cost of its existing computer system in light of the Company's planned installation of a new computer system, and writing off pre-opening costs on all new stores as incurred.

The effective tax rate for the year ended March 2, 1986 approximated 50.0% compared to 52.3% for the twelve months ended March 3, 1985. The reduction in the effective rate resulted primarily from the reversal of tax reserves established prior to the Company's initial public offering, which are no longer required, in connection with various tax shelters.

Liquidity and Capital Resources

During the fiscal year ended March 1, 1987, the Company generated \$15.5 million in working capital from operations. During the fiscal year ended March 2, 1986 and nine months ended March 3, 1985, \$10.8 million and \$6.2 million, respectively, in working capital was generated from operations. At March 1, 1987, March 2, 1986, and March 3, 1985 the Company had working capital of \$153.0 million, \$29.8 million, and \$18.8 million respectively.

During the period ended March 3, 1985, the Company raised approximately \$11.8 million from its initial public offering of 1.7 million shares (6.8 million shares after giving retroactive effect to the Stock Dividends) of Common Stock completed in September 1984. During the year ended March 2, 1986, the Company sold to the public an additional 200,000 shares (800,000 shares after giving retroactive effect to the Stock Dividends) in a public offering in March 1985, which raised approximately \$3.9 million. During the year ended March 1, 1987, the Company sold 1,495,000 shares (2,990,000 shares after giving effect to the 1986 Stock Dividend) in a public offering in March 1986, which raised approximately \$37.0 million. On July 1, 1986, the Company sold \$81 million principal amount of its 6% Convertible Subordinated Debentures due 2011, convertible into Common Stock at \$23.125 per share (as adjusted to give effect to the 1986 Stock Dividend).

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 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 discussion or negotiations, with respect to any such acquisition, with the exception of negotiations for the possible acquisition of Benel Distributors, Ltd., the company which operates the "Crazy Eddie Record and Tape Asylums" in all Crazy Eddie stores (except the Edison, New Jersey store). See "Certain Relationships and Related Transactions -- Benel." It is anticipated that any such acquisition would also encompass the assets of a related entity, Disc-O-Mat, Inc., which operates a number of record and tape outlets in the New York metropolitan area. Negotiations for such acquisition have been suspended pending receipt of financial statements of such entities. Any additional funds necessary for expansion or acquisitions may be obtained through bank borrowings, internal sources or additional debt or equity offerings.

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 the Company plans to open six additional stores.

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%. At present, the unsecured note is scheduled to mature on February 9, 1989; however, the Company is currently in the process of negotiations with the bank whereby this loan is expected to be converted into a five-year commercial mortgage secured by the building in which the Company's headquarters is located.

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 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 June 8, 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.

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.

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. As of June 8, 1987, approximately \$44 million is outstanding under the credit facility and approximately \$1 million of letters of credit have been issued.

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 June 8, 1987, there was no commercial paper outstanding. The proceeds of this program are 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 has established a \$25 million short-term working capital line within the overall \$52 million facility, providing for interest on amounts outstanding based on prime, certificate of deposit, LIBOR or money market fund rates. As of June 8, 1987, \$10 million is outstanding under the credit line and approximately \$550,000 of letters of credit are issued and outstanding. Chemical Bank has verbally informed the Company that it will no longer provide funds to the Company under the letter of credit facility or working capital credit line.

In past years, the Company's capital expenditures, incurred principally in connection with the opening of new stores, were financed almost entirely out of internally generated funds and the proceeds of the Company's public offerings. The Company intends to continue to use internally generated funds, together with a portion of the proceeds from the public offerings, to finance its expansion plans. Since March 1, 1987, the Company has opened five additional stores. The Company's current expansion plans include the opening of six stores during the remainder of the 1988 fiscal year.

Impact of Inflation and Foreign Currency Fluctuations

In the Company's opinion, inflation has not had a material impact upon its operating results because technological advances in the type of products sold by the Company, together with increased competition among the Company's vendors, have kept the prices of such products stable and, in some instances, have caused prices to decline.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and notes thereto and the report of certified public accountants thereon set forth on pages F-1 - F-27 herein are incorporated herein by reference.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART IIIITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The following table sets forth the name of each director and executive officer of the Company, the positions held by such person and the age, as of June 8, 1987, of such person:

<u>Name</u>	<u>Age</u>	<u>Offices Held</u>
Eddie Antar.....	39	Chairman of the Board and member of the Executive Committee of the Board of Directors
Sam E. Antar.....	30	Director, Executive Vice President, Chief Financial Officer and a member of the Office of the President
Dr. Isaac Kairey.....	36	Director, Executive Vice President - Operations and a member of the Office of the President
Solomon E. Antar.....	50	Director, Senior Vice President, Secretary and General Counsel
Eddy Antar.....	61	Director, Treasurer
David V. Panoff.....	38	Director, Senior Vice President - Service and Support Systems
Edmond Levy.....	40	Director, Vice President - Real Estate and Development
Steven Pasquariello....	34	Director, Vice President - Store Operations
William H. Saltzman....	53	Director and member of the Executive Committee of the Board of Directors

<u>Name</u>	<u>Age</u>	<u>Offices Held</u>
James H. Scott, Jr.....	42	Director and member of the Executive Committee of the Board of Directors

The Company's directors hold office until the next annual meeting of stockholders or until their successors have been duly elected and qualified. The Company's officers are elected annually by the Board of Directors and hold office at the pleasure of the Board.

Eddie Antar is a nephew of Eddy Antar. Solomon E. Antar is a cousin of Eddy Antar. Sam E. Antar is the son of Eddy Antar.

Eddie Antar served as President the Company and its predecessors from its inception until his resignation on December 22, 1986. He was elected Chairman of the Board, President and Chief Executive Officer in May 1984 and resigned as Chief Executive Officer on January 8, 1987. He was elected a member of the Executive Committee of the Board of Directors on May 1, 1987. The Company has an employment agreement with Eddie Antar. See "Executive Compensation -- Employment Agreement."

Sam E. Antar was elected a member of the Office of the President on December 22, 1986 and was elected Executive Vice President and Chief Financial Officer on August 27, 1986. Prior to that time, he served the Company as Controller and in other capacities relating to finance and accounting. Prior to commencing employment with the Company in July 1984, Sam E. Antar was employed for three years by Penn and Horowitz (predecessor of J. Liebman & Co.), independent certified public accountants. Sam E. Antar is a certified public accountant.

Dr. Isaac Kairey was elected Vice President - Operations and a member of the Office of the President on December 22, 1986. Prior to that time, he served the Company as Director of Retail Operations and Director of Human Resources. Prior to commencing employment with the Company in August 1983, Dr. Kairey, who is a Ph.D. clinical psychologist, was engaged in private practice and as a consultant.

Eddy Antar was elected Treasurer in May 1984. Prior to that time, he served as Secretary and Treasurer of the Company.

Solomon E. Antar was elected Senior Vice President, Secretary and General Counsel in December 1986.

Prior to that time, he served as the Company's Secretary and General Counsel.

David V. Panoff was elected Senior Vice President - Service and Support Systems on May 29, 1987. From December 22, 1986 to that date, he served as Senior Vice President - Consumer Service Operations and Telemarketing. Prior to that time, he served the Company as Vice President - Consumer Service Operations and in other capacities relating to consumer service.

Edmond Levy was elected Vice President - Real Estate and Development on December 22, 1986. Prior to that time, he served the Company as Director of Real Estate and as a store district manager.

Steven Pasquariello was elected Vice President - Store Operations on December 22, 1986. Prior to that time, he served the Company as a store district manager.

William H. Saltzman was elected a director on March 27, 1987 and was elected a member of the Executive Committee of the Board of Directors on May 1, 1987. Mr. Saltzman has been Vice President and General Counsel of Sun/DIC Acquisition Corp., a manufacturer of graphic arts materials since January 1, 1987. Prior to that time, he served as Vice President - Legal of Polychrome Corporation, a manufacturer of lithographic printing plates and photographic films for the printing industry.

James H. Scott, Jr. was elected a director in October 1984. Since 1983, Mr. Scott has been a Professor of Business at the Columbia University Graduate School of Business, where he also currently serves as Divisional Representative for Finance. Prior to that time, he was an Associate Professor. Mr. Scott was on leave from Columbia University from August 1981 through June 1982, during which time he was employed at McKinsey & Co. until January 1982 and then in the Corporate Finance Department at Goldman, Sachs & Co.

ITEM 11. EXECUTIVE COMPENSATION

Cash Compensation

The following table sets forth all cash compensation paid by the Company for services rendered during the fiscal year ended March 1, 1987 to (i) each of the Company's five most highly compensated executive officers and (ii) all executive officers of the Company as a group:

<u>Name of Individual or Number in Group</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation(1)</u>
Eddie Antar.....	Chairman of the Board, President and Chief Executive Officer(2)	\$ 484,231(3)
Mitchell Antar.....	Executive Vice President- Marketing, Executive Vice President and Chief Operating Officer and member of the Office of the President(4)	237,500
Sam E. Antar.....	Controller, Executive Vice President and Chief Financial Officer and member of the Office of the President	237,500
Sam Antar.....	Executive Vice President(5)	196,153
Eddy Antar.....	Treasurer	161,539
Executive officers as a group (twelve persons)		\$1,874,482(6)

-
- (1) The table does not include any amounts for personal benefits because the dollar amount cannot be specifically ascertained, and the Company does not believe that in the case of any individual except Eddie Antar (see note (3) below) such value would equal or exceed the lesser of \$25,000 or 10% of such individual's annual cash compensation or that, with respect to the group, the aggregate amount of such value would exceed the lesser of \$300,000 or 10% of aggregate cash compensation shown above for the group.
- (2) Eddie Antar resigned as President of the Company on December 22, 1986 and resigned as Chief Executive Officer of the Company on January 8, 1987. On January 16, 1987, the Board of Directors passed a resolution providing that Eddie Antar's compensation and benefits shall continue in full force and effect through May 15, 1987. As of June 8, 1987, he continues to receive a base salary at the rate of \$600,000 per annum, which salary was increased from \$300,000 per annum by the Board of Directors as of September 1, 1986.
- (3) The base salary of Eddie Antar may be increased during the current fiscal year. See "Employment Agreement" below. On August 27, 1986, the Board of Directors

approved a discretionary expense account for Eddie Antar in an annual amount of \$100,000, effective September 1, 1986. The dollar amount of personal benefits received by Eddie Antar during the fiscal year ended March 1, 1987 cannot be specifically ascertained. The Company believes that such amount was not in excess of \$100,000.

- (4) Mitchell Antar resigned as a director, Executive Vice President and Chief Operating Officer and a member of the Office of the President of the Company on June 5, 1987.
- (5) Sam Antar's employment by the Company was terminated as of May 14, 1987 by action of the Executive Committee of the Board of Directors. See "Business -- Recent Developments -- Board of Directors; Executive Officers."
- (6) Includes cash compensation paid for services rendered in all capacities during the fiscal year ended March 1, 1987 to all persons who were executive officers at any time during such fiscal year.

Members of the Board of Directors who are not employees of the Company were paid a fee of \$12,000 per annum through December 31, 1986 for their services as directors. The compensation of such directors has been increased to the rate of \$15,000 per calendar year plus \$750 for attendance at each meeting of the Board or any committee thereof in excess of an aggregate of six meetings per fiscal year, which increase is retroactive to January 1, 1987. Members of the Special Committee of the Board of Directors are compensated at the rate of \$250 per hour for performance of services in connection with the work of such committee, which compensation is in lieu of, and not in addition to, compensation to which such directors would otherwise be entitled for attending committee meetings.

Employment Agreement

The Company has an employment agreement with Eddie Antar, effective as of June 1, 1984 (the "Employment Agreement"), providing for the employment of Mr. Antar as the Chief Executive Officer of the Company at an initial annual base salary of \$300,000. Since June 1, 1985, Mr. Antar has been eligible to receive increases in base salary and bonuses as determined by the Board of Directors. The Employment Agreement does not obligate the Company to increase Mr. Antar's base salary but, if it does so, it cannot thereafter reduce such base salary. The Board increased the annual base salary of Eddie Antar to \$600,000, effective

September 1, 1986. Mr. Antar resigned as President of the Company on December 22, 1986 and as Chief Executive Officer of the Company on January 8, 1987. In his letter of resignation as Chief Executive Officer, he informed the Board of Directors of his willingness to surrender and waive fully all of his rights under the Employment Agreement or to consent to such modification thereof as the Board may deem appropriate. On January 16, 1987, the Board acted to maintain Mr. Antar's compensation and benefits as provided in the Employment Agreement in full force and effect through May 15, 1987. As of June 8, 1987, the Board has taken no further action with respect to the Employment Agreement or the compensation and benefits of Mr. Antar.

Unless otherwise terminated by the Company as provided in the Employment Agreement, Mr. Antar's term of full-time employment will continue until the earlier of (i) the fifth anniversary of receipt of a notice of termination given by the Company or Mr. Antar to the other or (ii) the first anniversary of receipt of a notice of termination given by Mr. Antar to the Company on or after Mr. Antar's 59th birthday, except that the term of Mr. Antar's full-time employment may in no event extend beyond the day next preceding the Annual Meeting of Stockholders of the Company next following the date of Mr. Antar's 65th birthday. The Employment Agreement obligates Mr. Antar to provide certain advisory services to the Company during the five-year period following Mr. Antar's term of full-time employment (the "Advisory Period"), for which Mr. Antar will receive annual compensation in an amount equal to not less than 40% of his final base salary.

The Employment Agreement also provides that, in the event of a change in control of the Company, Mr. Antar may terminate his term of full-time employment thereunder. In such event, unless (i) Mr. Antar accepts employment with the Company or any successor or (ii) such change in control was initiated by the Company or was supported from the outset by the Board and Mr. Antar is offered a contract at least as favorable as the Employment Agreement, Mr. Antar would be entitled for a period of five years after such termination to his annual compensation and to the other benefits provided for in the Employment Agreement during the term of his full-time employment, and thereafter to the compensation and other benefits he would otherwise be entitled to receive during the Advisory Period, or in lieu thereof, to the present value of such compensation and benefits.

The Employment Agreement contains a covenant by Mr. Antar that, without the Company's permission, he will not, for a period of five years following termination of his full-time employment, compete with the business of the Company in the greater metropolitan New York area.

The Company owns and is the beneficiary of life insurance policies on the life of Eddie Antar in the amount of \$5,000,000.

On February 18, 1986, the Board of Directors delegated to Eddie Antar as Chairman of the Board, President and Chief Executive Officer of the Company, the authority to fix the compensation of all other officers of the Company.

Stock Option Plan

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

The Option Plan provides for administration by a committee (the "Committee"), consisting of three persons appointed by the Board. The Committee determines, by unanimous vote, the key employees to be granted options and stock appreciation rights under the Option Plan, the number of shares subject to each grant and the exercise price, and specifies whether options granted are incentive stock options or nonqualified stock options. Members of the Committee are not eligible to receive options under the Option Plan. Options generally expire immediately upon termination of employment for cause. No options granted under the Option Plan are transferable by the optionee other than by will or by the laws of descent and distribution, and each option is exercisable, during the lifetime of the optionee, only by the optionee. Any options granted to an

employee generally terminate three months after the optionee's termination of employment except in cases of (i) disability occurring while employed or (ii) death while employed or within three months thereafter. No options will be granted under the Option Plan commencing ten years after adoption of the Option Plan.

The exercise of any incentive option granted under the Option Plan shall not be less than the fair market value of the shares subject to the option on the date of grant. The exercise price of any nonqualified stock option granted under the Option Plan shall be not less than 85% of the fair market value of the shares subject to the option on the date of grant. The term of each option and the manner in which it may be exercised will be determined by the Committee, subject to the requirement that no option may be exercisable more than 10 years after the date of grant. With respect to any incentive stock option granted to an employee who owns stock possessing more than 10% of the voting rights of the Company's outstanding capital stock on the date of grant, the exercise price of the option must be at least equal to 110% of the fair market value of the shares subject to the option on the date of grant and the option may not be exercisable more than five years after the date of grant. The aggregate fair market value of the Common Stock (determined at the date of the option grant) for which an employee may be granted incentive stock options under the Option Plan in any calendar year before 1987 may not exceed \$100,000 plus certain permissible carryover allowances. With respect to incentive stock options granted after 1986, the aggregate fair market value (determined at the date of the option grant) of the Common Stock with respect to which incentive stock options under the Option Plan may first become exercisable by any employee may not exceed \$100,000. It appears that incentive stock options granted prior to 1987 that first become exercisable after 1986 are disregarded for purposes of this limitation. However, it is unclear how incentive stock options granted after 1986, the exercise of which is subject to being accelerated, will be treated for purposes of this limitation. It is possible that any such incentive stock option will not qualify as an "incentive stock option" under section 422A of the Code. The Option Plan permits the exercise of options either by a cash payment or, with the consent of the Committee, by surrender of shares of Common Stock, valued at fair market value at the date of surrender, or a combination of these methods.

The Option Plan allows the Committee to grant an optionee a stock appreciation right pursuant to which the grantee may surrender for cancellation the exercisable portion of his option (or any part thereof), and receive in consideration a payment by the Company of an amount equal to the difference between the fair market value of the stock subject to the surrendered portion of the option (determined

on the date the stock appreciation right is exercised) and the option exercise price for those shares (or any greater appreciation base set by the Committee). Such payment will be made in cash or in shares of Common Stock, or a combination of both, as the Committee shall determine in its discretion. A stock appreciation right may be granted at the time the related option is granted or at any later date, as the Committee may determine. A stock appreciation right will be exercisable only at the times and to the extent the related option is exercisable and may be subject to additional conditions established by the Committee. Upon exercise of a stock appreciation right, the number of shares available for issuance under the Option Plan will be decreased by the number of shares covered by such exercise, and the related option will be cancelled automatically to the extent of the number of shares represented by such exercise; conversely, upon exercise of the related option, its tandem stock appreciation right will be cancelled automatically to the extent of the number of shares covered by the option exercise.

Nonqualified stock options to purchase an aggregate of 232,550 shares of Common Stock (465,100 shares as adjusted for the effect of the 1986 Stock Dividend) were granted to six officers and 126 other employees on August 20, 1986 at an exercise price of \$35.13 per share (the average of the high and low sales prices on such date as reported by NASDAQ) (\$17.565 as adjusted for the effect of the 1986 Stock Dividend). Incentive stock options to purchase an aggregate of 15,000 shares of Common Stock (30,000 shares as adjusted for the effect of the 1986 Stock Dividend) were granted to four officers and two other employees on August 20, 1986 at an exercise price of \$35.13 per share (\$17.565 per share as adjusted for the effect 1986 Stock Dividend).

Nonqualified stock options to purchase an aggregate of 42,625 shares of Common Stock (85,250 shares as adjusted for the effect of the 1986 Stock Dividend) were granted to one officer and 73 other employees on August 25, 1986 at an exercise price of \$36.38 per share (the average of the high and low sales prices on such date as reported by NASDAQ) (\$18.19 per share as adjusted for the effect of the 1986 Stock Dividend). Additionally, nonqualified stock options to purchase 75,000 shares of Common Stock (150,000 shares as adjusted for the effect of the 1986 Stock Dividend) were granted to one officer on August 25, 1986 at an exercise price of \$35.38 per share (being approximately 97% of the average of the high and low sales prices on such date as reported by NASDAQ) (\$17.69 per share as adjusted for the effect of the 1986 Stock Dividend). Incentive stock options to purchase 2,500 shares of Common Stock (5,000 as adjusted for the effect of the 1986 Stock Dividend) were granted to one officer on August 25, 1986 at an exercise price \$36.38

per share (\$18.19 per share as adjusted for the effect of the 1986 Stock Dividend). The options subject to all such grants made in August 1986 became exercisable 90 days after their respective date of grant and expire on the tenth anniversary of such date of grant.

Nonqualified stock options to purchase an aggregate of 20,000 shares of Common Stock were granted to one employee on October 3, 1986 at an exercise price of \$19.13 per share (the average of the high and low sales prices on such date as reported by NASDAQ). Such options became exercisable at the rate of 20% per year commencing on the date of grant and expire on October 2, 1996.

On January 28, 1987, members of the Committee offered all persons granted nonqualified or incentive options on August 20, 1986, August 25, 1986 and October 3, 1986 the opportunity to surrender such options for cancellation and receive in exchange new nonqualified options for a like number of shares. The new options are exercisable at the rate of 20% per year beginning January 28, 1988 at an exercise price of \$8.44 per share and will expire on January 27, 1997. The new options also provide for acceleration of the right to exercise such options under certain circumstances involving a change in control of the Company. Furthermore, the new options include stock appreciation rights which provide that, in the event the right to exercise the new options is accelerated as described in the preceding sentence, the optionee may surrender all or a portion of such options and receive a cash payment in an amount equal to the excess of the value of the shares subject to the surrendered options (determined as of the date of such surrender) over the aggregate exercise price of the surrendered options. All persons who had been granted options on August 20, 1986, August 25, 1986 or October 3, 1986 and remained in the employ of the Company as of January 28, 1987 chose to surrender such options in exchange for nonqualified options granted on January 28, 1987.

Nonqualified stock options and tandem stock appreciation rights (as described in the preceding paragraph) to purchase an aggregate of 718,650 shares of Common Stock were granted on January 28, 1987 pursuant to the aforementioned exchange offer and a corresponding number of the options granted on August 20, 1986, August 25, 1986, and October 3, 1986 were thereby surrendered and cancelled. The legality of the procedures by which members of the Stock Option Committee approved such cancellation and reissuance has been questioned by counsel for the Company.

The following table sets forth the number of shares of Common Stock subject to the stock options granted under the Option Plan during the fiscal year ended March 1, 1987 to (i) each of the individuals named in the table under

"Cash Compensation" and (ii) all executive officers of the Company as a group:

<u>Name of Individual</u>	Shares Subject to August 20, 1986 <u>Options</u> (1)(2)	Shares Subject to August 25, 1986 <u>Options</u> (1)(2)	Shares Subject to January 28, 1987 <u>Options</u>
Mitchell Antar	40,000	150,000	190,000
Sam E. Antar .	30,000	20,000	50,000
Eddy Antar ...	20,000	—	20,000
Executive officers as a group (twelve persons) ...	235,000	170,000	385,000

- (1) As adjusted for the effect of the 1986 Stock Dividend.
 (2) All such options were surrendered and cancelled in exchange for options granted on January 28, 1987 for a like number of shares, except for options for 20,000 shares granted on August 20, 1986 to an executive officer who died prior to the January 28, 1987 exchange offer. The legality of the procedures by which members of the Stock Option Committee approved such cancellation and reissuance has been questioned by counsel for the Company.

Four of the Company's executive officers exercised options during the fiscal year ended March 1, 1987. Solomon E. Antar, David V. Panoff and David Pardo, a former executive officer of the Company, exercised options in April 1986 for 18,500, 2,500 and 10,000 shares, respectively (37,000, 5,000 and 20,000 shares, respectively, as adjusted for the effect of the 1986 Stock Dividend). Sam E. Antar exercised options for 5,000 shares in January 1987. The shares acquired by Solomon E. Antar and Sam E. Antar as a result of such exercises during the fiscal year ended March 1, 1987 have not yet been sold. All of the shares acquired by David V. Panoff were sold in October 1986 and he realized approximately \$92,500 on such sale. Ten thousand of the shares acquired by David Pardo were sold in November and December 1986 and he realized approximately \$145,900 on such sales. The Company made loans to certain officers to enable them to exercise stock options. See "Certain Relationships and Related Transactions -- Indebtedness of Management."

Money Purchase Pension Plan

The Company formerly maintained a money purchase pension plan (the "Money Purchase Plan") which was terminated effective as of May 31, 1984. All participants in the Money Purchase Plan at that date became fully vested in

their account balances. The Internal Revenue Service approved the termination of the Money Purchase Plan on May 20, 1985 and all account balances held in trust under the Money Purchase Plan were distributed to the participants prior to March 2, 1986. The Company contributed annually to the Money Purchase Plan, on behalf of each eligible participant, an amount equal to 25% of each participant's W-2 compensation for the immediately preceding calendar year. A portion of Company contributions was invested in insurance policies issued on the lives of the participants. —

Profit Sharing Plan

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

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

A participant may make voluntary contributions to a separate account, which shall not, when added to voluntary contributions made to any other plan of the Company, exceed 10% of the participant's base compensation. An amended and restated Profit Sharing Plan was approved by the Board of Directors on June 15, 1987, effective as of December 31, 1986, to permit participants to make salary reduction contributions pursuant to section 401(k) of the Code up to

8% of total compensation, including bonuses, overtime and commissions, but excluding stock options and other fringe benefits. The Company makes matching contributions on behalf of each participant equal to 25% of the first 6% of his compensation (not in excess of \$25,000) which he contributes to the plan by way of salary reduction contributions. In the case of certain corporate officers, the sum of the regular Company contribution and the matching Company contribution in any one year may not exceed \$6,500. The participant will at all times have a 100% nonforfeitable right to his voluntary contribution account and his 401(k) contribution account. The participant will have a 100% nonforfeitable right to his matching contribution account after completing at least two years of vesting service with the Company.

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

The executive officers of the Company have waived participation in the Profit Sharing Plan for the short plan year ended December 31, 1986. The Company has determined to make a contribution in the amount of \$500,000 to the Profit Sharing Plan for the fiscal year ended March 1, 1987.

Defined Benefit Pension Plan

The Company and its subsidiaries adopted a defined benefit pension plan (the "Pension Plan"), effective as of June 1, 1979, for all employees with at least six months of service who have attained age 24. The Company is required to make annual contributions to the Pension Plan in such

amounts as are actuarially required to fund the benefits of the participants under the Pension Plan. The Pension Plan was frozen as of May 31, 1985 and, therefore, no new benefits are being earned and no new participants are being added thereunder. The Company has filed with the Internal Revenue Service for approval to terminate the Pension Plan, effective as of May 31, 1986. As a result of the current funding status of the Pension Plan, it is anticipated that the Company will not be required to make any contributions to the Pension Plan for the current year.

At present, each participant who retires on his normal retirement date (the later of the June 1st nearest to his 65th birthday or the 10th anniversary of his entry into the Pension Plan) is entitled to a monthly pension benefit equal to 22.132% of his average monthly compensation (over his highest paid five consecutive year period of participation) in excess of \$1,908. For purposes of the Pension Plan, "monthly compensation" includes bonuses, overtime and commissions, but excludes any deferred compensation. The participant's monthly pension benefit is reduced pro rata if the participant has been employed by the Company for less than 15 years at his normal retirement date. The Pension Plan provides a minimum monthly pension benefit of \$20.00 for any participant who has accrued a benefit under the basic formula.

A participant who terminates employment before his normal retirement date vests in his accrued benefit as follows: 30% vesting after completion of three years of service, with an additional 10% vesting for each additional year of service until 100% vesting is achieved after ten years. All participants in the Pension Plan will become fully vested in their accrued benefits upon the termination or discontinuance of the Pension Plan. The Pension Plan provides a death benefit, funded by life insurance, equal to 100 times the monthly pension to which the participant is entitled. Benefit distributions to married participants will be in the form of a qualified joint and survivor annuity unless an optional benefit form is chosen. Optional benefit forms include a lump sum payment, other forms of annuity contracts, and substantially equal annual (or more frequent) installments over a specified period of time.

Participants may, but are not required to, make voluntary contributions to individual accounts established under the Pension Plan in an amount which, when added to voluntary contributions under all other Company plans, does not exceed 10% of the participant's compensation. Participants are always fully vested in their voluntary contribution account balances.

The following table sets forth the estimated lump-sum benefits payable as of May 31, 1986, the date of

termination of the Pension Plan, to (i) the individuals named in the table under "Cash Compensation" and (ii) all executive officers of the Company as a group:

<u>Name of Individual or Number in Group</u>	<u>Amount of Lump-Sum Distribution</u>
Eddie Antar	\$ 12,765
Mitchell Antar	3,773
Sam E. Antar	--
Sam Antar	103,320(1)
Eddy Antar	67,815
Executive officers as a group (twelve persons)	199,191

(1) Includes estimated benefits payable to Rose Antar, the wife of Sam Antar.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

At the close of business on June 8, 1987, 30,868,180 shares of the common stock, par value \$.01 per share, of the Company (the "Common Stock") were outstanding and 500,000 shares were held in the Company's treasury. Each share of Common Stock is entitled to one vote with respect to each matter to be voted on at the Annual Meeting.

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock, as of June 8, 1987 (except as otherwise noted in the footnotes to the table), by each person known by the Company to own beneficially more than 5% of the Company's Common Stock. Unless otherwise noted in the footnotes to the table, the persons named in the table have sole voting and investment power with respect to all outstanding shares of Common Stock shown as beneficially owned by them.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percent of Class</u>
Common Stock.....	Eddie Antar 140 Carter Drive Edison, New Jersey 08817 First City Capital — Corporation 499 Park Avenue New York, New York 10022 First City Trust Company 777 Hornby Street Vancouver, British Columbia, Canada V6Z 1S4	4,282,222(1)	13.9%
Common Stock.....	Citicorp 399 Park Avenue New York, New York 10043	2,976,878(2)	9.6%
Common Stock.....	J.P. Morgan & Co. Incorporated 23 Wall Street New York, New York 11235	2,245,935(3)	7.3%

-
- (1) As of May 20, 1987, as reported in a Schedule 13D, dated May 21, 1987, filed by Eddie Antar, First City Capital Corporation ("First City") and First City Trust Company ("FCTC"). According to the Schedule 13D, Eddie Antar beneficially owns 2,856,222 of the shares included in the table and has sole power to vote and dispose of all such shares. FCTC beneficially owns 1,426,000 of the shares included in the table and has sole power to vote and dispose of all such shares. Eddie Antar, First City and FCTC have disclosed that they are acting as a group for the purpose of acquiring Common Stock of the Company. See "Changes in Control" below.
- (2) As of December 31, 1986, as reported in a Schedule 13G, dated February 13, 1987, filed by Citicorp with the Securities and Exchange Commission. According to the Schedule 13G, Citicorp (through its wholly-owned subsidiaries, Citibank, N.A., Citicorp Investment Management, Inc. and Citicorp Investment Bank (Switzerland)) has sole power to vote 1,068,717 of the shares

included in the table, shared power to vote 2,162 of such shares, sole power to dispose of 2,974,716 of such shares and shared power to dispose of 2,162 of such shares.

- (3) As of December 31, 1986, as reported in a Schedule 13G, dated December 31, 1986, filed by J.P. Morgan & Co. Incorporated ("Morgan") with the Securities and Exchange Commission. According to the Schedule 13G, Morgan has sole power to vote 1,434,114 of the shares included in the table, shared power to vote 1,621 of such shares, sole power to dispose of 2,244,314 of such shares and shared power to dispose of 1,621 of such shares. Morgan has the right to acquire 103,235 of the shares included in the table.

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock, as of June 8, 1987, by (i) each of the Company's directors who owns shares of the Company's Common Stock and (ii) all directors and executive officers of the Company as a group. The persons named in the table have sole voting and investment power with respect to all outstanding shares of Common Stock shown as beneficially owned by them.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percent of Class</u>
Common Stock.....	Eddie Antar	2,856,222(1)	9.3%(1)
Common Stock.....	Eddy Antar	81,000(2)	*
Common Stock.....	Sam E. Antar	143,200(3)	*
Common Stock.....	Solomon E. Antar	57,000(4)	*
Common Stock.....	Isaac Kairey	44,000(5)	*
Common Stock.....	Edmond Levy	33,400(6)	*
Common Stock.....	David V. Panoff	52,800(7)	*
Common Stock.....	Steven Pasquariello	44,000(8)	*
Common Stock.....	William H. Saltzman	15,000	*
Common Stock.....	James H. Scott, Jr.	2,300	*
Common Stock.....	Directors and executive officers as a group (10 persons)	3,328,922(9)	10.8

* Less than one percent.

- (1) Does not include 1,426,000 shares owned by other members of a group acting with Eddie Antar for the purpose of acquiring Common Stock of the Company. See footnote (1) to preceding table and "Changes in Control" below.
- (2) Includes 41,000 shares issuable upon the exercise of currently exercisable options due to expire on September 20, 1994, 20,000 shares issuable upon the exercise of currently exercisable options due to expire on October 7, 1995 and 20,000 shares issuable upon the exercise of options exercisable commencing January 28, 1988, due to expire on January 27, 1997.
- (3) Includes 18,000 shares issuable upon the exercise of currently exercisable options due to expire on September 20, 1994, 17,000 shares issuable upon the exercise of currently exercisable options due to expire on October 7, 1995 and 50,000 shares issuable upon the exercise of options exercisable commencing January 28, 1988 due to expire on January 27, 1997.
- (4) Includes 20,000 shares issuable upon the exercise of options exercisable commencing January 28, 1988 due to expire on January 27, 1997.
- (5) Includes 20,000 shares issuable upon the exercise of currently exercisable options due to expire on October 7, 1995 and 24,000 shares issuable upon the exercise of options exercisable commencing January 28, 1988 due to expire on January 27, 1997.
- (6) Includes 16,000 shares issuable upon the exercise of currently exercisable options due to expire on October 7, 1995 and 17,000 shares issuable upon the exercise of options exercisable commencing January 28, 1988 due to expire on January 27, 1997.
- (7) Includes 15,000 shares issuable upon the exercise of currently exercisable options due to expire on September 20, 1994, 17,000 shares issuable upon the exercise of currently exercisable options due to expire on October 7, 1995 and 20,000 shares issuable upon the exercise of options exercisable commencing January 28, 1988 due to expire on January 27, 1997.

- (8) Includes 8,000 shares issuable upon the exercise of currently exercisable options due to expire on September 20, 1994, 16,000 shares issuable upon the exercise of currently exercisable options due to expire on October 7, 1995 and 20,000 shares issuable upon the exercise of options exercisable commencing January 28, 1988 due to expire on January 27, 1997.
- (9) Includes 82,000 shares issuable upon the exercise of currently exercisable options due to expire on September 20, 1994, 106,000 shares issuable upon the exercise of currently exercisable options due to expire on October 7, 1995 and 171,000 shares issuable upon the exercise of options exercisable commencing January 28, 1988 due to expire on January 27, 1997.

The legality of the procedures by which members of the Stock Option Committee approved the issuance of the stock options due to expire on January 27, 1997 (and the concurrent cancellation of previously issued stock options) has been questioned by counsel for the Company.

By virtue of his beneficial ownership of Common Stock and his position as a director of the Company, Eddie Antar may be deemed to be a "parent" of the Company within the meaning of the rules and regulations of the Securities and Exchange Commission.

Changes in Control

The Company is aware of an arrangement between Eddie Antar and First City, the operation of which may result in a change in control of the Company. On May 20, 1987, Eddie Antar and First City entered into a stockholders' agreement pursuant to which they will organize an entity to seek to enter into a merger transaction with the Company or to otherwise gain control of the Company. In addition, the stockholders agreement sets forth certain agreements with respect to, among other things, the management of the Company and the acquiring entity after a change in control and ownership of shares of stock of the Company and the acquiring entity. On May 20, 1987, they delivered a letter to the Board of Directors of the Company offering to purchase all of the outstanding shares of Common Stock of the Company for \$7.00 per share in cash. See "Business -- Recent Developments -- Buy-Out Proposals." In a Schedule 13D filed with the Commission on May 22, 1987, Eddie Antar and First City stated that the purpose of their transaction is to acquire all of the Common Stock of the Company, which they would prefer to acquire in a negotiated transaction. However, depending upon circumstances,

including, without limitation, the response of the Board of Directors of the Company to their offer, general economic and market conditions, conditions relating to the Company's business and other conditions they deem relevant, and subject to applicable law, they may (i) acquire additional shares or control of the Company by means of a tender offer, open market purchases, privately negotiated transactions, or a combination thereof; (ii) abandon their offer or make a different proposal for a business combination with the Company; or (iii) dispose of their Common Stock in the open market, in privately negotiated transactions or otherwise.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Leases

The Company leases its Union, New Jersey store from Eddie Antar and Sam Antar. The lease expires on December 31, 1988 and provides for an annual rental of \$114,000 for the year ended May 31, 1987 with an increase of \$10,000 for the year thereafter. The Company leases its East 86th Street store in New York City from the father-in-law of Sam E. Antar. The lease expires on April 30, 1994 and provides for an annual rental of \$315,000 for the year ending April 30, 1988 with increases of \$10,000 per year thereafter. Rent for the year ended April 30, 1987 totaled \$305,000. The Company believes that the terms of these leases are no less favorable to the Company than the terms of similar leases of other stores entered into by the Company in arm's-length transactions with unaffiliated parties. The Company sub-leases from a corporation wholly-owned by Eddie Antar and Sam Antar a building in Brooklyn, New York in which the Company formerly had its corporate headquarters. See "Properties." The Company leases from David V. Panoff on a month-to-month basis a furnished apartment which he owns near the Company's corporate headquarters. The Company uses the apartment to house visiting consultants, relocated executives and the like. Pursuant to an oral agreement, the Company pays Mr. Panoff rent of \$1,180 per month, which the Company believes is a fair market rent.

Benel

Benel Distributors, Ltd. ("Benel"), a New York corporation wholly-owned by Ellen Kuszer, Eddie Antar's sister, and her husband, Ben Kuszer, sells pre-recorded audio and video cassettes and records in each Crazy Eddie store (except the Edison, New Jersey store) pursuant to certain license agreements in each case entered into between the wholly-owned subsidiary of the Company operating the

Crazy Eddie store (the "Licensor") and a wholly-owned subsidiary of Benel operating the concession in such store (the "Licensee"). Each license agreement is on a month-to-month basis, and may be terminated by the Licensor upon ten days' notice to the Licensee. Each Licensee pays a fixed monthly fee, ranging from \$2,000 to \$7,000, for the use of its premises. Such fees aggregated \$1,512,000 for the fiscal year ended March 1, 1987. In addition, pursuant to separate license agreements, each Licensor has agreed, subject to certain conditions, to permit its Licensee to use the marks "Crazy Eddie" and "Crazy Eddie Record and Tape Asylums," under which Benel operates its concessions.

The Company leases to Benel approximately 35,000 square feet of space in its new corporate headquarters in Edison, New Jersey at a rent of \$120,000 per annum, which the Company believes is a fair market rent.

The Company does not sell for its own account any products sold by Benel, and therefore does not compete with Benel or any of its subsidiaries. The Benel concessions in each Crazy Eddie store are allocated between 378 and 2,476 square feet of retail space. Under the license agreements, Benel has committed to expend a minimum amount each month for advertising utilizing the "Crazy Eddie" and "Crazy Eddie Record and Tape Asylums" marks. For the ten months ended March 1, 1987, Benel's gross advertising expenditures were \$1,051,000, which amount was substantially in excess of the minimum amounts required by the license agreements. The Company believes that its own operations have benefited from Benel's advertising, as well as from the customer traffic generated by the Benel concessions, and (subject to the possible acquisition of Benel by the Company) intends to offer Benel similar concessions in each of the Company's new stores. The Company has been involved in negotiations for the possible acquisition of Benel. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Indebtedness of Management

The Company has made loans to certain of its officers for personal needs, including the exercise of stock options. 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 loan of \$123,100 on September 20, 1986. The loan of \$98,800 was extended for one year upon its original due date of April 10, 1987, and remains outstanding. 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. In addition, the Company loaned \$10,375 to David V. Panoff on April 7, 1986, which loan has since been repaid. Each of the above loans was made for a one-year term at an interest rate equal to the prime rate.

On October 10, 1986, November 10, 1986 and December 30, 1986, the Company loaned \$200,000, \$50,000 and \$25,000, respectively, to Edmond Levy. The loans, which bore interest at the prime rate and were secured by a mortgage on Mr. Levy's home, have been paid in full. On May 1, 1986, the Company loaned \$15,000 to Dr. Isaac Kairey. Dr. Kairey's loan was repaid in full on January 3, 1987. 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 June 8, 1987, the outstanding balance on Mr. Panoff's loans is \$71,000, payable on demand. On February 27, 1987, the Company loaned \$78,271 to Solomon E. Antar for a period of 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, the Company loaned \$50,000 to Edmond Levy for a period of six months at an annual interest rate of 1% above the prime rate. The full amount of such loan is currently outstanding. On May 13, 1987, the Company loaned \$100,000 to Sam E. Antar for a period of two months at an interest rate of 9% per annum. As of June 8, 1987, \$50,000 remains outstanding on this loan.

PART IV

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

(a) 1 and 2. The financial statements and financial statement schedules listed in the accompanying Index to Financial Statements are filed as part of this report.

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

(b) No reports on Form 8-K have been filed during the last quarter of the period covered by this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Edison, State of New Jersey, on the 15th day of June, 1987.

CRAZY EDDIE, INC.

By /s/ Sam E. Antar
 Sam E. Antar
 Executive Vice President
 and Chief Financial
 Officer and member of the
 Office of the President

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

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>Eddie Antar</u>	Director and Chairman of the Board and member of the Executive Committee of the Board of Directors	June , 1987
<u>/s/ Eddy Antar</u> Eddy Antar	Director	June 15, 1987
<u>/s/ Sam E. Antar</u> Sam E. Antar	Director, Executive Vice President and Chief Financial Officer and member of the Office of the President (Principal Financial Officer, Principal Accounting Officer and Co-Principal Executive Officer)	June 15, 1987
<u>/s/ Solomon E. Antar</u> Solomon E. Antar	Director	June 15, 1987
<u>/s/ Isaac Kairey</u> Isaac Kairey	Director, and member of the Office of the President (Co-Principal Executive Officer)	June 15, 1987

<u>/s/ Edmond Levy</u> Edmond Levy	Director	June 15, 1987
<u>/s/David V. Panoff</u> David V. Panoff	Director	June 15, 1987
<u>/s/Steven Pasquariello</u> Steven Pasquariello	Director	June 15, 1987
<u>/s/William H. Saltzman</u> William H. Saltzman	Director and member of the Executive Committee of the Board of Directors	June 15, 1987
<u>/s/James H. Scott, Jr.</u> James H. Scott, Jr.	Director and member of the Executive Committee of the Board of Directors	June 15, 1987

Item 8. Financial Statements

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Certified Public Accountants	F-2
Consolidated Balance Sheet, March 1, 1987 and March 2, 1986	F-3
Consolidated Statement of Operations, Years Ended March 1, 1987 and March 2, 1986 and the Nine Months Ended March 3, 1985	F-4
Consolidated Statement of Changes in Stockholders' Equity, Years Ended March 1, 1987 and March 2, 1986 and the Nine Months Ended March 3, 1985	F-5
Consolidated Statement of Changes in Financial Position, Years Ended March 1, 1987 and March 2, 1986 and the Nine Months Ended March 3, 1985	F-6 to F-7
Notes to Consolidated Financial Statements	F-8 to F-24
Schedules, Years Ended March 1, 1987 and March 2, 1986 and the Nine Months Ended March 3, 1985	
I - Marketable Securities - Other Investments	F-25
II - Amounts Receivable from Related Parties	F-26
IX - Short-Term Borrowings	F-27

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Crazy Eddie, Inc.

We have examined the consolidated balance sheet of Crazy Eddie, Inc. and subsidiaries as of March 1, 1987 and March 2, 1986, and the related consolidated statements of operations, changes in stockholders' equity and changes in financial position for the years ended March 1, 1987 and March 2, 1986, and the nine months ended March 3, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Crazy Eddie, Inc. and subsidiaries at March 1, 1987 and March 2, 1986, and the results of their operations and the changes in their financial position for the years ended March 1, 1987 and March 2, 1986, and the nine months ended March 3, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations, referred to above, also included the financial schedules listed in answer to Item 14(a)(2). In our opinion, such financial schedules present fairly the information required to be set forth therein.

Peat Marwick Main & Co.

PEAT MARWICK MAIN & CO.

New York, New York
April 28, 1987
(except for Note 15 which is
as of June 12, 1987)

CRAZY EDDIE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Dollar Amounts in Thousands)

	March 1, 1987	March 2, 1986	March 1, 1987	March 2, 1986
ASSETS				
Current assets:				
Cash	\$ 9,347	\$ 13,296	\$ 49,286	\$ 2,254
Short-term investments	121,957	26,840	285	51,723
Receivables:			50,022	3,696
American Express Co.	3,470	2,246	3,641	11,071
Income taxes	4,500			6,055
Other	2,876			
Merchandise inventories	109,072	59,864	5,593	
Prepaid income taxes	2,583		108,827	74,799
Prepaid expenses and other current assets	4,030	2,363	8,459	7,701
Deferred income taxes	4,026		80,975	
Total current assets	<u>261,861</u>	<u>104,609</u>	<u>3,337</u>	<u>1,829</u>
Deferred income taxes	1,668	3,978		
Restricted cash	3,356			
Property, plant and equipment, less accumulated depreciation and amortization of \$4,849 and \$2,922	26,401	7,172		
Construction in process	6,253		313	280
Other assets	3,246	1,582	57,678	17,668
Deferred financing costs	<u>1,682</u>		<u>35,269</u>	<u>24,673</u>
Total stockholders' equity	<u>\$294,858</u>	<u>\$126,950</u>	<u>\$294,858</u>	<u>\$126,950</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term debt				
Current maturities of long-term debt				
Accounts payable				
Unearned service contract revenue				
Income taxes payable				
Accrued liabilities				
Total current liabilities			<u>108,827</u>	<u>74,799</u>
Long-term debt, less current maturities			<u>8,459</u>	<u>7,701</u>
Convertible subordinated debentures			<u>80,975</u>	
Unearned service contract revenue			<u>3,337</u>	<u>1,829</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, outstanding 31,337,680 and 28,010,842 shares, respectively				
Additional paid-in capital				
Retained earnings				

The accompanying notes are an integral part of these financial statements.

CRAZY EDDIE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(In Thousands, Except Per Share Amounts)

	Year Ended March 1, 1987	Year Ended March 2, 1986	Nine Months Ended March 3, 1985
Net sales	\$352,523	\$262,268	\$136,319
Cost of goods sold	<u>272,255</u>	<u>194,371</u>	<u>103,421</u>
Gross profit	80,268	67,897	32,898
Selling, general and administrative expense	<u>61,341</u>	<u>42,975</u>	<u>20,508</u>
Interest and other income	18,927	24,922	12,390
Interest expense	7,403	3,210	1,211
	<u>(5,233)</u>	<u>(820)</u>	<u>(438)</u>
Income before pension contribution and income taxes	21,097	27,312	13,163
Pension contribution	<u>500</u>	<u>800</u>	<u>600</u>
Income before income taxes	20,597	26,512	12,563
Income taxes	<u>10,001</u>	<u>13,268</u>	<u>6,734</u>
Net income	<u>\$ 10,596</u>	<u>\$ 13,244</u>	<u>\$ 5,829</u>
Earnings per share	<u>\$.34</u>	<u>\$.48</u>	<u>\$.24</u>
Weighted average number of shares outstanding	<u>31,204</u>	<u>27,664</u>	<u>24,212</u>

The accompanying notes are an integral part of these financial statements.

CRAZY EDDIE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended March 1, 1987 and March 2, 1986
and Nine Months Ended March 3, 1985

	Common Stock Number of Shares	Par Value	Additional Paid-in Capital (In Thousands)	Retained Earnings	Total
Balance, June 1, 1984	10,000	\$100	\$ 524	\$ 5,600	\$ 6,224
Net income				5,829	5,829
Stock split effected in the form of a dividend	10,000	100	(100)		
Issuance of 6,800,000 shares (net of issuance costs)	6,800	68	11,740		11,808
Balance, March 3, 1985, as restated	26,800	268	12,164	11,429	23,861
Net income				13,244	13,244
Issuance of 1,210,842 shares (net of issuance costs and tax benefit of approximately \$725,000)	1,211	12	5,504		5,516
Balance, March 2, 1986 as restated	28,011	280	17,668	24,673	42,621
Net income				10,596	10,596
Issuance of 3,326,838 shares (net of issuance costs and tax benefit of approximately \$1,181,000)	3,327	33	40,010		40,043
Balance, March 1, 1987	31,338	\$313	\$57,678	\$35,269	\$93,260

4
1
5

The accompanying notes are an integral
part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In Thousands)

	Year Ended March 1, 1987	Year Ended March 2, 1986	Nine Months Ended March 3, 1985
Working capital provided from:			
Net income	\$ 10,596	\$13,244	\$ 5,829
Add charges (deduct) credits not affecting working capital:			
Depreciation and amortization	2,330	1,044	417
Loss on disposal of equipment	304	506	8
Deferred income taxes	2,310	(3,978)	
	15,540	10,816	6,254
Working capital provided from operations			
Reduction in advances to affiliates	1,508	1,194	7,140
Increase in unearned service contract revenue	40,043	5,516	309
Issuance of common stock - net	3,356	3,702	11,808
Decrease in restricted cash	81,000		
Issuance of subordinated debentures	8,354	700	8,237
Increase in long-term debt	6,253		
Decrease in construction in process			
	156,054	21,928	33,748
Total working capital provided			
Working capital used for:			
Increase in restricted cash	7,596	624	7,058
Advances and sales to affiliates - net	25		1,401
Reduction in long-term debt	21,817	4,986	658
Reduction in convertible subordinated debentures	1,728	5,099	2,277
Acquisition of property, plant and equipment	1,664	203	1,154
Construction in process			
Deferred charges			270
Increase in other assets			
	32,830	10,912	12,818
Total working capital used			
Increase in working capital	\$123,224	\$11,016	\$20,930

(Continued)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Continued)
(In Thousands)

	Year Ended March 1, 1987	Year Ended March 2, 1986	Nine Months Ended March 3, 1985
Changes in working capital consisted of:			
Increase (decrease) in current assets:			
Cash	(\$ 3,949)	\$ 6,080	\$ 5,840
Short-term investments	95,117	11,783	15,057
Receivables	8,600	371	879
Merchandise inventories	49,208	33,321	3,200
Prepaid income taxes	2,583		
Prepaid expenses and other current assets	1,667	853	(612)
Deferred income taxes	4,026		
	<u>157,252</u>	<u>52,408</u>	<u>24,364</u>
Decrease (increase) in current liabilities:			
Short-term debt	(49,286)		
Current maturities of long-term debt	1,969	(1,831)	2,601
Accounts payable	1,701	(28,645)	(2,971)
Unearned service contract revenue	55	(2,523)	(410)
Income taxes payable	11,071	(5,051)	
Accrued liabilities	462	(3,342)	(2,654)
	<u>(34,028)</u>	<u>(41,392)</u>	<u>(3,434)</u>
Increase in working capital	<u>\$123,224</u>	<u>\$ 11,016</u>	<u>\$20,930</u>

The accompanying notes are an integral part of these financial statements.

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

1 - Summary of Significant
Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries (collectively referred to as Crazy Eddie, Inc. or the Company), all of which are wholly owned.

Short-Term Investments

Short-term investments are stated at cost which approximates market value.

Inventories

Merchandise inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or market. Purchase discounts and trade allowances are recognized when earned.

In accordance with industry practice, a substantial portion of the merchandise inventory has been purchased from suppliers under credit terms which grant the creditor a security interest in the inventory through the use of trust receipts.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation and amortization are computed using the straight-line method, based on the estimated useful lives of the assets.

Deferred Financing Costs

Costs incurred in connection with the issuance of the convertible subordinated debentures are deferred and amortized over the life of the debentures.

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

1 - Summary of Significant
Accounting Policies (Continued)

Pensions

The Company funds currently the costs of its noncontributory pension plans, which cover eligible employees.

Unearned Service Contract Revenue

Payments received from customers for service contracts are deferred and amortized into income over the terms of the respective contracts, which generally do not exceed five years. Service costs relating to the service contracts are charged to operations as incurred.

Income Taxes

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

Investment tax credits earned prior to 1986 are accounted for as a reduction of income tax expense in the year in which such credits were allowable for income tax purposes. Deferred income taxes are provided for timing differences between financial and tax reporting, primarily with respect to the reporting of unearned service contract revenue, inventories and the granting and exercise of nonqualified stock options.

Pre-Opening Costs

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

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

1 - Summary of Significant
Accounting Policies (Continued)

Earnings per Share

Earnings per share were computed by dividing net income by the weighted average number of shares of outstanding common stock, after giving retroactive effect to the two-for-one stock split effected in the form of a dividend approved by the stockholders on both July 31, 1985 and September 30, 1986. Stock options had no effect on the calculation of such per share data. Convertible subordinated debentures, although common stock equivalents, were anti-dilutive.

2 - Property, Plant and Equipment

Property, plant and equipment consist of:

	<u>March 1, 1987</u>	<u>March 2, 1986</u>	<u>Estimated Useful Lives</u>
Land	\$ 925	\$ 925	
Buildings and improvements	10,008	765	10 to 40 years
Office, warehouse and other equipment	9,774	2,650	3 to 5 years
Furniture and fixtures	2,653	1,556	5 to 10 years
Leasehold improvements	<u>7,890</u>	<u>4,198</u>	Lesser of life of lease or useful life of improvement
	31,250	10,094	
Less accumulated depreciation and amortization	<u>4,849</u>	<u>2,922</u>	
	<u>\$26,401</u>	<u>\$ 7,172</u>	

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

3 - Taxes

Income tax expense consists of:

	Year Ended		Nine Months Ended March 3, 1985
	March 1, 1987	March 2, 1986	
Current:			
Federal	\$ 8,118	\$12,665	\$5,555
State and local	2,208	4,125	1,635
	(325)	(3,522)	(456)
Deferred	\$10,001	\$13,268	\$6,734

Reconciliations between actual tax expense and the amount computed by applying the statutory U.S. federal income tax rate to income taxes are as follows:

	Year Ended		Nine Months Ended	
	March 1, 1987		March 2, 1986	
	Amount	Pre-Tax Earnings	Amount	Pre-Tax Earnings
Computed expected tax expense	\$ 9,474	46.0 %	\$12,196	46.0 %
State and local taxes, net of federal income tax benefit	1,214	5.9	2,228	8.4
Investment and job tax credits	(50)	(.2)	(300)	(1.2)
Reversal of tax reserves no longer required	(637)	(3.1)	(725)	(2.7)
Other	\$10,001	48.6 %	\$13,268	50.0 %
			147	1.2
			\$6,734	53.6 %

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

3 - Taxes (Continued)

Deferred income taxes result primarily from timing differences between financial reporting and tax reporting with respect to unearned service contract revenue, cost or market adjustment for inventories and the granting and exercise of nonqualified stock options.

4 - Pension Plans

On June 1, 1984, the Board of Directors authorized the adoption of a profit sharing plan. Pursuant to the profit sharing plan, the Company will make and has made annual contributions, out of its current or accumulated earnings or profits, up to a maximum of 15% of covered compensation, as defined in such plan, for all employees who meet certain eligibility requirements.

The expense for the years ended March 1, 1987 and March 2, 1986 and for the nine months ended March 3, 1985 was \$500,000, \$800,000 and \$600,000, respectively.

5 - Short-Term Debt

Short-term debt at March 1, 1987 consists of commercial paper borrowings which bear interest between 6.65% and 6.85% in the amount of \$33,886,000 and borrowings from a financial institution, under a credit facility entered into on September 1, 1986, which bear interest between 6.75% and 7.5% in the amount of \$15,400,000 (see below).

On September 1, 1986, the Company entered into an agreement with a financial institution 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.

On January 2, 1987, the Company entered into an agreement with another financial institution establishing a \$52 million letter of credit facility and a \$25 million short-term working capital line with interest on amounts outstanding based on prime, certificate of deposit, LIBOR or money market fund rates (see Note 15).

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

6 - Leases and Other Commitments

Rent expense (including amounts paid in respect of maintenance, real estate taxes and other charges) for the years ended March 1, 1987 and March 2, 1986 and for the nine months ended March 3, 1985 amounted to \$7,337,000, \$4,554,000 and \$1,652,000, respectively.

At March 1, 1987, the Company was obligated under leases with initial terms of more than one year covering certain real property. The aggregate minimum fixed rentals required under these leases (exclusive of renewal options) are approximately as follows:

<u>Year Ending March 1,</u>	<u>Aggregate Minimum Rental Commitment</u>
1988	\$ 10,630
1989	10,595
1990	10,113
1991	10,341
1992	10,282
Thereafter through 2000	<u>95,956</u>
	<u>\$147,917</u>

Rent expense included \$202,000, \$185,000 and \$132,000 for the years ended March 1, 1987 and March 2, 1986 and for the nine months ended March 3, 1985, respectively, for rentals paid to corporations controlled by Eddie Antar, Chairman of the Board and Sam Antar, Executive Vice President, or a corporation wholly owned by them.

Pursuant to certain license agreements, the Company subleases the record departments at all of its store locations to a corporation (Benel Distributors, Ltd.) wholly owned by Ben Kuszer, brother-in-law of Eddie Antar, and Mr. Kuszer's wife. Other income includes \$1,512,000, \$741,000 and \$382,000 for the years ended March 1, 1987 and March 2, 1986 and for the nine months ended March 3, 1985, respectively, in connection with these agreements.

At March 1, 1987, letters of credit approximating \$2,900,000 were outstanding.

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

7 - Accrued Liabilities

Accrued liabilities consist of the following:

	<u>March 1, 1987</u>	<u>March 2, 1986</u>
Sales taxes	\$1,901	\$2,035
Compensation and payroll taxes	1,356	2,296
Bond interest	1,013	
Pension	350	800
Other	<u>973</u>	<u>924</u>
	<u>\$5,593</u>	<u>\$6,055</u>

8 - Long-Term Debt

Long-term debt consists of the following:

	<u>March 1, 1987</u>	<u>March 2, 1986</u>
Note payable, with interest at 7.6% per annum, due February 9, 1989 (a)	\$7,680	
Series A Economic Development Bonds, payable in quarterly installments of \$51,667 beginning January 1, 1986, repaid in full during the year ended March 1, 1987 (b)		\$6,148
Series B Economic Development Bonds, payable in monthly installments of \$19,048 beginning August 1, 1985, repaid in full during the year ended March 1, 1987 (b)		1,448
Notes payable in connection with purchase of lease rights, payable in monthly installments of \$10,000 decreasing to \$6,500, commencing December 1, 1985	550	660
Other	<u>514</u>	<u>1,699</u>
	8,744	9,955
Less current maturities of long-term debt	<u>285</u>	<u>2,254</u>
	<u>\$8,459</u>	<u>\$7,701</u>

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

8 - Long-Term Debt (Continued)

- (a) On February 9, 1987, the Company borrowed \$7,680,000 from a commercial bank, at a fixed interest rate of 7.6%. At present, the note is unsecured and is scheduled to mature on February 9, 1989. However, the Company is currently in the process of negotiations with the bank whereby this loan is expected to be converted into a five-year commercial mortgage secured by the building located at 140 Carter Drive, Edison, New Jersey.
- (b) On April 11, 1984, the Company entered into agreements to purchase approximately 11 acres of land in Edison, New Jersey and to have a builder construct the Company's new Corporate headquarters on such land. The agreements were conditioned, among other things, upon the Company receiving from the New Jersey Economic Development Authority (the Authority) approval for the issuance of economic development bonds to finance such acquisition and construction as well as certain related costs.

On December 21, 1984, the Company borrowed from the Authority an aggregate amount of \$7,800,000 in order to finance the acquisition of the land, the construction of the new facility and certain related machinery and equipment. Proceeds for such loan were provided pursuant to the issuance by the Authority of \$6,200,000 aggregate principal amount of its Series A Economic Development Bonds (Crazy Eddie, Inc. - 1984 Project) (the Series A Bonds) and \$1,600,000 aggregate principal amount of its Series B Economic Development Bonds (Crazy Eddie, Inc. - 1984 Project) (the Series B Bonds and, together with the Series A Bonds, the Bonds).

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

8 - Long-Term Debt (Continued)

Aggregate annual maturities of the long-term debt outstanding at March 1, 1987 for each of the next five years are as follows:

<u>Year Ending March 1,</u>	<u>Aggregate Annual Maturity</u>
1988	\$ 285
1989	7,834
1990	166
1991	174
1992	155

9 - Convertible Subordinated Debentures

On July 1, 1986, the Company sold \$81 million principal amount of 6% Convertible Subordinated Debentures, due June 15, 2011 (the Debentures). Each Debenture is convertible, at any time prior to maturity, into shares of the Company's common stock at a conversion price of \$23.125 per share (as adjusted to give effect to the stock split effected in the form of a dividend), subject to adjustment in certain events.

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

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

9 - Convertible Subordinated Debentures (Continued)

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

10 - Stock Option Plan

On August 28, 1984, the Company adopted the Crazy Eddie, Inc. 1984 Stock Option Plan, which provides for the issuance of nonqualified and incentive stock options. The Company has reserved 1,000,000 shares of common stock for issuance to key employees under the plan. In July 1986, the shareholders authorized the issuance of an additional 1,000,000 shares of common stock to key employees under the same plan.

Changes in the Stock Option Plan were as follows:

	<u>Number of Shares</u>		
	<u>Authorized</u>	<u>Granted</u>	<u>Available</u>
Balance, August 28, 1984	1,000		1,000
Granted	_____	528	(528)
Balance, March 3, 1985	1,000	528	472
Granted Exercised	(234)	422 (234)	(422)
Balance, March 2, 1986	766	716	50
Authorized Granted Exercised Cancelled	1,000 (213) _____	1,474 (213) (764)	1,000 (1,474) 764
Balance, March 1, 1987	<u>1,553</u>	<u>1,213</u>	<u>340</u>

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

10 - Stock Option Plan (Continued)

The exercise price of any incentive stock option shall not be less than the fair market value of the shares subject to the option on the date of grant. The exercise price of any nonqualified stock option shall not be less than 85% of the fair market value of the shares subject to the option on the date of grant. The term of each option and the manner in which it may be exercised will be determined by a Committee of the Board of Directors, subject to the requirement that no option may be exercisable more than ten years after the date of grant.

During the year ended March 1, 1987, 30,000 and 5,000 incentive stock options were granted at \$17.57 and \$18.19 per share, respectively. Nonqualified stock options of 465,100, 150,000, 85,200 and 20,000 were granted at exercise prices of \$17.57, \$17.69, \$18.19 and \$19.13, respectively. On January 28, 1987, the Company cancelled 718,650 of the above and reissued 718,650 nonqualified stock options at a exercise price of \$8.44. Options subject to these grants expire January 28, 1997. The legality of the procedures by which the stock option committee approved such cancellation and reissuance has been questioned by counsel for the Company.

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

11 - Stockholders' Equity

On September 20, 1984, the Company issued 6,800,000 shares of common stock in connection with its initial public offering.

On March 20, 1985 and March 7, 1986, the Company issued an additional 800,000 shares of common stock and 2,990,000 shares of common stock to the public, respectively.

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

11 - Stockholders' Equity (Continued)

In addition, in connection with the initial public offering, the managing underwriter purchased warrants to acquire an aggregate of 300,000 shares of common stock at a price of \$2.40 per share for \$.25 each. At March 1, 1987, warrants to acquire all 300,000 shares of common stock were exercised.

The foregoing information has been adjusted for a 2-for-1 stock split effected in the form of a dividend on both July 31, 1985 and September 30, 1986.

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

The Board of Directors of the Company has authorized the repurchase of up to 5,000,000 shares of its common stock on the open market. For the period March 2, 1987 through April 28, 1987, 500,000 shares of its common stock had been repurchased at an aggregate cost of \$3,871,875.

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

12 - Revised Fiscal Year Financial
Statements (Unaudited)

The following shows the operating results for the year
ended March 3, 1985 of the Company, restated to correspond to the
Company's new fiscal year:

CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Year Ended March 3, <u>1985</u>
Net sales	\$167,147
Cost of goods sold	<u>127,619</u>
Gross profit	39,528
Selling, general and administrative expense	<u>26,431</u>
	13,097
Other income	1,418
Interest expense	<u>(572)</u>
Income before pension contribution and income taxes	13,943
Pension contribution	<u>600</u>
Income before income taxes	13,343
Income taxes	<u>6,976</u>
Net income	<u>\$ 6,367</u>
Net income per share	<u>\$.27</u>
Weighted average number of shares outstanding	<u>23,184</u>

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

12 - Revised Fiscal Year Financial
Statements (Unaudited) (Continued)

CONSOLIDATED STATEMENT OF CHANGES IN
FINANCIAL POSITION
(Unaudited)

	Year Ended March 3, <u>1985</u>
Working capital provided from:	
Net income	\$ 6,367
Add charges not affecting working capital:	
Depreciation and amortization	532
Loss on disposal of equipment	<u>37</u>
Working capital provided from operations	6,936
Reduction in advances to affiliates	8,562
Increase in unearned service contract revenue	332
Issuance of common stock - net	11,808
Increase in long-term debt	8,236
Insurance proceeds	<u>14</u>
Total working capital provided	<u>35,888</u>
Working capital used for:	
Increase in restricted cash	7,058
Advances and sales to affiliates - net	2,901
Reduction in long-term debt	671
Acquisition and additions of property, plant and equipment	2,491
Construction in process	1,154
Increase in other assets	<u>4</u>
Total working capital used	<u>14,279</u>
Increase in working capital	<u>\$21,609</u>

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

12 - Revised Fiscal Year Financial
Statements (Unaudited) (Continued)

CONSOLIDATED STATEMENT OF CHANGES IN
FINANCIAL POSITION
(Unaudited)

	Year Ended March 3, <u>1985</u>
Changes in working capital consisted of:	
Increase (decrease) in	
current assets:	
Cash and short-term investments	\$21,365
Receivables	818
Merchandise inventories	4,579
Prepaid expenses	<u>(155)</u>
	<u>26,607</u>
Decrease (increase) in	
current liabilities:	
Loans payable - officers and other	2,509
Current maturities	
of long-term debt	810
Accounts payable	(4,893)
Unearned service contract revenue	(465)
Accrued liabilities	<u>(2,959)</u>
	<u>(4,998)</u>
Increase in working capital	<u>\$21,609</u>

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

13 - Quarterly Financial Data (Unaudited)

	Quarter Ended				Total
	June 1, 1986	August 31, 1986	November 30, 1986	March 1, 1987	
Year ended March 1, 1987:					
Net sales	\$64,500	\$74,800	\$91,125	\$122,098	\$352,523
Gross profit	15,012	18,822	21,450	24,984	80,268
Net income	2,426	3,750	3,662	758	10,596
Earnings per share	\$.08	\$.12	\$.12	\$.02	\$.34

123

	Quarter Ended				Total
	June 2, 1985	September 1, 1985	December 1, 1985	March 2, 1986	
Year ended March 2, 1986:					
Net sales	\$45,843	\$52,908	\$63,750	\$99,767	\$262,268
Gross profit	10,361	12,762	15,172	29,602	67,897
Net income	1,141	2,389	2,578	7,136	13,244
Earnings per share	\$.04	\$.09	\$.10	\$.25	\$.48

14 - Shareholder Rights Plan

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. A description and terms of the Rights 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 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.

CRAZY EDDIE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Tables Included in the Accompanying Footnotes
are in Thousands Except for Per Share Data)

15 - Subsequent Events

In June, one of the financial institutions referred to in Note 5 verbally informed the Company that it will no longer provide funds to the Company under its January 2, 1987 letter of credit facility and short-term working capital line.

During May and June, various alleged class actions on behalf of current holders of the Company's common stock were brought against the Company. Reference is made to Item 3 "Legal Proceedings" of Form 10-K for a description of the litigation.

As of June 12, 1987, outside counsel of the Company cannot determine the impact, if any, on the March 1, 1987 consolidated financial statements, resulting from the above litigation. However, management of the Company believes such litigation is without merit, and if liability is found it would not have a material adverse effect on the accompanying financial statements.

CRAZY EDDIE, INC. AND SUBSIDIARIES

SCHEDULE I

MARKETABLE SECURITIES - OTHER INVESTMENTS

March 1, 1987

<u>Description</u>	<u>Number of Shares or Principal Amount</u>	<u>Cost</u>	<u>Market Value</u>	<u>Amount at Which Carried in Balance Sheet</u>
Various preferred stocks (1)		\$ 3,668,817	\$ 3,665,794	\$ 3,668,817
U.S. Government securities: U.S. Treasury obligation	\$61,985,000	62,039,533	61,955,679	62,039,533
Municipal bonds	7,790,000	7,788,800	7,803,222	7,788,800
Corporate debt securities (1)	18,726,425	18,717,068	18,726,425	18,717,068
Collateralized mortgage obligations		13,775,834	13,775,834	13,775,834
Certificates of deposits		15,966,598	15,966,598	15,966,598
				<u>\$121,956,650</u>

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

CRAZY EDDIE, INC. AND SUBSIDIARIES

SCHEDULE II

AMOUNTS RECEIVABLE FROM RELATED PARTIES

Year Ended March 1, 1987,
Year Ended March 2, 1986 and
Nine Months Ended March 3, 1985

Name of Debtor	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Sales	Cash Advances	Amounts Collected	Other	
Year ended March 1, 1987:						
Loans receivable - officers:						
Solomon E. Antar	\$ 123,100		\$203,701	(\$ 123,100)		\$203,701
David Pardo	84,718		98,800			98,800
Morton Gindi			83,375	(10,375)		84,718
David Panoff			275,000	(250,000)		73,000
Ed Levy			15,000	(15,000)		25,000
Isaac Kairey						
	<u>\$ 207,818</u>		<u>\$675,876</u>	<u>(\$ 398,475)</u>		<u>\$485,219</u>
Year ended March 2, 1986:						
Loans receivable - officers:						
David Pardo			\$123,100			\$123,100
Morton Gindi			84,718			84,718
			<u>\$207,818</u>			<u>\$207,818</u>
Nine months ended March 3, 1985:						
Due from affiliates:						
Acusti-phase, Inc.	\$ 155,980			(\$ 155,980)		
Benel Distributors, Ltd.	2,590,612			(3,991,223)		
Captain Video Enterprises, Inc.	1,824,943	\$1,018,611		(1,824,943)	\$382,000	
Educators International, Inc.	977,578			(977,578)		
S & M Discount Center, Inc.	60,360			(60,360)		
Shoe Time, Inc.	129,801			(129,801)		
	<u>\$5,739,274</u>	<u>\$1,018,611</u>		<u>(\$ 7,139,885)</u>		<u>\$ -</u>
Loans receivable - officers:						
Eddie Antar and Sam Antar	\$ 50,000			(\$ 50,000)		
Solomon E. Antar	237,500			(237,500)		
	<u>\$ 287,500</u>			<u>(\$ 287,500)</u>		<u>\$ -</u>

CRAZY EDDIE, INC. AND SUBSIDIARIES

SCHEDULE IX

SHORT-TERM BORROWINGS

Year Ended March 1, 1987 and
 Nine Months Ended March 3, 1985

Category of Aggregate Short-Term Borrowings	Balance at End of Period	Weighted Average Interest Rate	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period	Weighted Average Interest Rate During the Period
Year ended March 1, 1987: Commercial paper	\$33,886,000	6.8%	\$34,000,000	\$4,480,411	6.8%
Notes payable banks	15,400,000	6.8	15,400,000	7,258,333	6.8
	<u>\$49,286,000</u>				
Nine months ended March 3, 1985: Notes payable banks	\$ -	-	5,250,000	3,218,297	9.0

Commercial paper represents obligations issued under the Company's Commercial Paper Program.

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

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

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

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
3.1	Certificate of Incorporation, as amended, of the Company (incorporated by reference from Registration Statement No. 2-91259, Exhibit 3.1, filed May 22, 1984)	
3.2	Certificate of Amendment of Certificate of Incorporation of the Company, dated July 16, 1985 (incorporated by reference from Form 8-K, filed July 25, 1985)	
3.3	By-laws of the Company, as amended	
4.1	Form of certificate evidencing ownership of common stock of the Company (incorporated by reference from Registration Statement No. 2-96148, Exhibit 4.1, filed March 1, 1985)	
4.2	Loan Agreement, dated as of December 1, 1984, by and between the New Jersey Economic Development Authority and the Company (incorporated by reference from Registration Statement No. 2-96148, Exhibit 4.2, filed March 1, 1985)	
4.3	Mortgage and Security Agreement, dated December 1, 1984, from the Company to the New Jersey Economic Development Authority (incorporated by reference from Registration Statement No. 2-96148, Exhibit 4.3, filed March 1, 1985)	
4.4	Assignment of Leases, dated December 21, 1984, from the Company to the New Jersey Economic Development Authority (incorporated by reference from Registration Statement No. 2-96148, Exhibit 4.4, filed March 1, 1985)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
4.5	Indenture, dated as of June 15, 1986, between the Company 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)	
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)	
10.1	Sublease, dated August 27, 1976, between East Fordham Road Properties, Inc. and DNS Audio Inc., as amended (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.1, filed May 22, 1984)	
10.2	Sublease, dated November 4, 1980, between General Nutrition Center, Inc. and SND Audio, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.2, filed May 22, 1984)	
10.3	Assignment of Lease, dated June 30, 1975, between Center Associates, Cameo Camera Stores, Inc. and SND Audio, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.3, filed May 22, 1984)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.4	Assignment and Assumption of Lease, dated March 30, 1984, between Sam Antar, Simcole Audio, Inc. and 404 Jericho Company (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.4, filed May 22, 1984)	
10.5	Assignment and Assumption of Lease, dated March 8, 1984, between Kelso Industries, Inc. and Ultralinear Sound Corp. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.5, filed May 22, 1984)	
10.6	Agreement, dated April 7, 1977, between Emil J. Geering and Dorothy B. Geering and Moore Industries Corporation (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.6, filed May 22, 1984)	
10.7	Assignment of Sublease, dated August 6, 1982, between The Lionel Corporation and Gabrielle Audio, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.7, filed May 22, 1984)	
10.8	Lease, dated September 1, 1978, between Kelso Industries, Inc. and Rose Audio, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.8, filed May 22, 1984)	
10.9	Assignment, dated December 21, 1982, between The Lionel Corporation and Crazy Eddie, Inc. and various subsidiaries (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.9, filed May 22, 1984)	
10.10	Assignment of Sublease, dated March 1, 1980, between Kelso Industries, Inc. and Noel Audio, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.10, filed May 22, 1984)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.11	Lease, dated February 1, 1981, between Lex-Parc Properties and Mitchell Audio, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.11, filed May 22, 1984)	
10.12	Lease, dated December 9, 1982, between Robert Rosenfeld and Simone Audio, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.12, filed May 22, 1984)	
10.13	Lease, dated February 10, 1983, between Vornado, Inc. and Danielle Audio, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.13, filed May 22, 1984)	
10.14	Lease dated January 10, 1984, between Jeffrey Seaman, et al. and Suffolk Audio Distributors Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.14, filed May 22, 1984)	
10.15	Sublease Agreement, dated April 1, 1984, between Kelso Industries, Inc. and the Company (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.15, filed May 22, 1984)	
10.16	Agreement of Lease, dated February 23, 1984, between Steval Development Corp. and Third Avenue Home Entertainment Boutique, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.17, filed May 22, 1984)	
10.17	Lease, dated July 1, 1980, between 2865 Coney Island Avenue Realty Corp. and the Company (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.17, filed May 22, 1984)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.18	Agreement to Purchase, dated April 11, 1984, between Talmadge Realty Associates and the Company (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.18, filed May 22, 1984)	
10.19	Construction Agreement, dated April 11, 1984, between Morris Industrial Builders, Inc. and the Company (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.19, filed May 22, 1984)	
10.20	Agreement of Lease, dated April 26, 1984, between 1000 Massapequa, Inc. and Massapequa Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.20, filed May 22, 1984)	
10.21	Form of Assignment of Lease, with Assumption, between National Brands Outlet, Inc. and C.E. Audio Distributors, Inc. (incorporated by reference from Amendment No. 2-91259, Exhibit 10.21, filed August 31, 1984)	
10.22	Assignment, dated May 21, 1984, from Eddie Antar to the Company (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.22, filed August 31, 1984)	
10.23	Form of Trade Name, Trademark and Service Mark License Agreement between the Company and each of its subsidiaries (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.23, filed August 31, 1984)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.24	Form of Trade Name, Trademark and Service Mark Sub-license Agreement between a subsidiary of the Company and a subsidiary of Benel. There are agreements between subsidiaries of the Company and subsidiaries of Benel that are identical in all material respects except for amounts of required advertising expenses of the licensee (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.24, filed August 31, 1984)	
10.25	Form of License Agreement between a subsidiary of the Company and a subsidiary of Benel. There are agreements between subsidiaries of the Company and subsidiaries of Benel that are identical in all material respects except for amounts of monthly license fees. Additional agreements are expected to be added as new stores open (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.25, filed August 31, 1984)	
10.26	Crazy Eddie, Inc. 1984 Stock Option Plan, as amended (incorporated by reference from Registration Statement No. 33-10471 on Form S-8, Appendix A, filed November 28, 1986)	
10.27	Crazy Eddie, Inc. and Subsidiaries Retirement Trust, dated May 1, 1977, as amended (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.27, filed May 22, 1984)	
10.28	The Crazy Eddie, Inc. and Subsidiaries Profit Sharing Plan, effective as of June 1, 1984 (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.28, filed May 22, 1984)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.29	Crazy Eddie, Inc. and Subsidiaries Defined Benefit Pension Plan (incorporated by reference from Registration Statement No. 2-91259, Exhibit 10.29, filed May 22, 1984)	
10.30	Form of Agreement among Benel Distributors, Ltd., Eddie Antar, Ben Kuszer and the Company (incorporated by reference from Amendment No. 3 to Registration Statement No. 2-91259, Exhibit 10.30, filed September 10, 1984)	
10.31	Form of Indemnification Agreement among the Company, Eddie Antar and Sam Antar (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.31, filed August 31, 1984)	
10.32	Form of Dwek Guaranty by Eddie Antar to the Company (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.32, filed August 31, 1984)	
10.33	Employment Agreement, dated as of June 1, 1984, between the Company and Eddie Antar (incorporated by reference from Amendment No. 1 to Registration Statement No. 2-91259, Exhibit 10.33, filed July 11, 1984)	
10.34	Sublease Agreement, dated May 22, 1984, between Harvey Sound, Inc. and Simcole Audio, Inc. (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.34, filed August 31, 1984)	
10.35	Lease, dated July 19, 1984, between Rockland Center Associates and Nanuet Audio Distributors, Inc. (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.35, filed August 31, 1984)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.36	Lease, dated May 14, 1984, between Belle Atkind and Woodbridge Audio Distributors, Inc. (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.36, filed August 31, 1984)	
10.37	Lease, dated August 16, 1984, between Center Associates and SND Audio, Inc. (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.37, filed August 31, 1984)	
10.38	Form of Consignment Agreement, dated as of May 31, 1984, between the Company and Benel Distributors Ltd. (incorporated by reference from Amendment No. 3 to Registration Statement No. 2-91259, Exhibit 10.38, filed September 10, 1984)	
10.39	Form of Indemnification Agreement among the Company, C.E. Holdings, Inc., Eddie Antar and Sam Antar (incorporated by reference from Amendment No. 2 to Registration Statement No. 2-91259, Exhibit 10.39, filed August 31, 1984)	
10.40	Form of Agreement among Crazy Eddie, Inc., Captain Video Enterprises, Inc. and Eddie Antar (incorporated by reference from Amendment No. 3 to Registration Statement No. 2-91259, Exhibit 10.40, filed September 10, 1984)	
10.41	Form of Agreement among Crazy Eddie, Inc., Educators International, Inc. and Eddie Antar (incorporated by reference from Amendment No. 3 to Registration Statement No. 2-91259, Exhibit 10.41, filed September 10, 1984)	
10.42	Form of Agreement among Crazy Eddie, Inc., University of St. Lucia School of Medicine, Ltd. and Eddie Antar (incorporated by reference from Amendment No. 3 to Registration Statement No. 2-91259, Exhibit 10.42, filed September 10, 1984)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.43	Form of Agreement among Crazy Eddie, Inc., Acoustiphase, Inc. and Eddie Antar (incorporated by reference from Amendment No. 3 to Registration Statement No. 2-91259, Exhibit 10.43, filed September 10, 1984)	
10.44	Form of Agreement among Crazy Eddie, Inc., Shoe Time, Inc. and Sam Antar (incorporated by reference from Amendment No. 3 to Registration Statement No. 2-91259, Exhibit 10.44, filed September 10, 1984)	
10.45	Form of Agreement among Crazy Eddie, Inc., S&M Discount Center, Inc. and Sam Antar (incorporated by reference from Amendment No. 3 to Registration Statement No. 2-91259, Exhibit 10.45, filed September 10, 1984)	
10.46	Form of Assignment of Interest in Brewer Venture by the Company to Eddie Antar and Sam Antar (incorporated by reference from Amendment No. 3 to Registration Statement No. 2-91259, Exhibit 10.46, filed September 10, 1984)	
10.47	Lease, dated October 18, 1984, between Medical Building Investors and Queens Boulevard Audio Inc. (incorporated by reference from Registration Statement No. 2-96148, Exhibit 10.47, filed March 1, 1985)	
10.48	Lease and three side letter agreements, dated October 16, 1984, and side letter agreement, dated October 31, 1984, between Bailey N.Y. Associates and the Company (incorporated by reference from Registration Statement No. 2-96148, Exhibit 10.48, filed March 1, 1985)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.49	Lease, dated February 11, 1985, between 116 Post Road Associates and Tera Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 2-96148, Exhibit 10.49, filed March 1, 1985)	
10.50	Letter from Bank Leumi Trust Company of New York, dated November 27, 1985, confirming line of credit (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.50, filed December 6, 1985)	
10.51	Lease, dated June 27, 1985, and First Amendment of Lease, dated July 10, 1985, between Berome Company and Crazy Eddie, Inc. (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.51, filed December 6, 1985)	
10.52	Lease, dated September 10, 1985, between Lawrence Friedland and Melvin Friedland and West Side Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.52, filed December 6, 1985)	
10.53	Lease, dated August 1, 1985, between Mercer Mall Property Group and Princeton Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.53, filed December 6, 1985)	
10.54	Lease, dated October 10, 1985, between Hooper Avenue Associates and Toms River Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.54, filed December 6, 1985)	
10.55.1	Contract of Sale, dated October 9, 1985, between Ruth Blumenthal, Woodrow H. Blumenthal, Bernice Jampol, Sally Hurwitz, Harvey Schwaid, Robert Schwaid and Lillian Schwaid (the "Sellers") and the Company (incorporated by reference from Registration Statement No. 33-2019,	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
	Exhibit 10.55.1, filed December 6, 1985)	
10.55.2	Assignment and Assumption of Lease, dated November 14, 1985, between Norman Lesman and the Company (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.55.2, filed December 6, 1985)	
10.55.3	Lease, dated November 8, 1978, between 3708 Main Street Company and Norman Lesman (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.55.3, filed December 6, 1985)	
10.55.4	Consent to Assignment of Lease executed on behalf of Sellers (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.55.4, filed December 6, 1985)	
10.55.5	Reassignment and Assumption of Lease, dated November 14, 1985, between the Company and Norman Lesman (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.55.5, filed December 6, 1985)	
10.55.6	Sublease Agreement, dated November 14, 1985, between Norman Lesman and the Company (incorporated by reference from Registration Statement No. 33-2019, Exhibit 10.55.6, filed December 6, 1985)	
10.56	Agreement of Termination and Release, dated February 26, 1985, between Net Realty Holding Trust and Crazy Eddie, Inc. (incorporated by reference from Amendment No. 1 to Registration Statement No. 33-2019, Exhibit 10.56, filed December 31, 1985)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.57	Lease, dated February 26, 1985, between Net Realty Holding Trust and Crazy Eddie, Inc. (incorporated by reference from Amendment No. 1 to Registration Statement No. 33-2019, Exhibit 10.57, filed December 31, 1985)	
10.58	Agreement with Oppenheimer & Co., Inc. containing cross indemnities and providing for blue sky registration and related matters (incorporated by reference from Amendment No. 1 to Registration Statement No. 33-2019, Exhibit 10.58, filed December 31, 1985)	
10.59	Lease, dated January 28, 1986, between Pergament Enterprises S.I. and the Company (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.59, filed February 28, 1986)	
10.60	Modification of Lease Agreement, dated December 4, 1985, between 1000 Massapequa Inc. and Massapequa Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.60, filed February 28, 1986)	
10.61	Agreement of Sublease, dated July 11, 1985, between Massapequa Audio Distributors, Inc. and H.S. Price Busters, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.61, filed February 28, 1986)	
10.62	Lease Agreement, dated November 20, 1985, between Brezar Enterprises and Eatontown Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.62, filed February 28, 1986)	
10.63	Modification Agreement, dated January 8, 1986, between Brezar Enterprises and Eatontown Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.63, filed February 28, 1986)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.64	Agreement, dated November 6, 1985, between Highview Associates and the Company (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.64, filed February 28, 1986)	
10.65	Indentura of Lease, dated February 18, 1986, between South Road Square Associates and Poughkeepsie Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.65, filed February 28, 1986)	
10.66	Lease Agreement, dated February 14, 1986, between Circle Plaza Associates and Amelia Audio Distributors, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.66, filed February 28, 1986)	
10.67	Agreement of Lease, dated November 20, 1985, between 625 Properties Associates and C-Pro, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.67, filed February 28, 1986)	
10.68	Lease, dated January 23, 1986, between Robert Rosenfeld and Simone Audio, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.68, filed February 28, 1986)	
10.69	Lease between DVA Associates and Simone Audio, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.69, filed February 28, 1986)	
10.70	Modification of Lease, dated January 23, 1986, between Vornado, Inc. and Danielle Audio, Inc. (incorporated by reference from Registration Statement No. 33-3640, Exhibit 10.70, filed February 28, 1986)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.71	Indenture of Lease, dated February 18, 1986, between Kravco Company for Green Acres Associates and the Company (incorporated by reference from Amendment No. 1 to Registration Statement No. 33-3640, Exhibit 10.71, filed March 7, 1986)	
10.72.1	Agreement, dated July 2, 1985, between Harvey Sound, Inc. and Allen Audio, Inc. (incorporated by reference from Amendment No. 1 to Registration Statement No. 33-3640, Exhibit 10.72.1, filed March 7, 1986)	
10.72.2	Assignment and Assumption of Lease, dated July 2, 1985, between Harvey Sound, Inc. and Allen Audio, Inc. (incorporated by reference from Amendment No. 1 to Registration Statement No. 33-3640, Exhibit 10.72.2, filed March 7, 1986)	
10.72.3	Agreement to Supplement and Modify Lease, dated August 6, 1985, among Harvey Sound, Inc., Allen Audio, Inc. and Harrow Realty Corp. (incorporated by reference from Amendment No. 1 to Registration Statement No. 33-3640, Exhibit 10.72.3, filed March 7, 1986)	
10.73	Indenture, dated March 17, 1986, by and between 2175 Dixwell Associates and Hamden Audio Distributors, Inc. (incorporated by reference from Form 10-K, Exhibit 10.73, filed June 2, 1986)	
10.74	Indenture of Lease by and between James A. Fieber, as Trustee, and the Company (incorporated by reference from Form 10-K, Exhibit 10.74, filed June 2, 1986)	
10.75	Indenture, dated March 17, 1986, by and between 641 New Britain Ave. Associates and Farmington Audio Distributors, Inc. (incorporated by reference from Form 10-K, Exhibit 10.76, filed June 2, 1986)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
10.76	Lease, dated April 7, 1986, between Acrick Associates and Cherry Hill Audio Distributors, Inc. (incorporated by reference from Form 10-K, Exhibit 10.76, filed June 2, 1986)	
10.77	Master Note, dated June 10, 1986, issued by the Company to RepublicBank Dallas, National Association (incorporated by reference from Registration Statement No. 33-6496, Exhibit 10.77, filed June 16, 1986)	
10.78	Lease, dated April 14, 1986, between Landthorp Enterprises, Inc. and Danielle Audio, Inc. (incorporated by reference from Form 10-Q, Exhibit 10.77, filed January 14, 1987)	
10.79	Lease, dated October 22, 1986, between Boulevard Plaza Associates and Roosevelt Blvd. Pa. Audio Corp. (incorporated by reference from Form 10-Q, Exhibit 10.78, filed January 14, 1987)	
10.80	Lease, dated January 8, 1987, between Oak Trading Company and Danielle Audio, Inc.	
10.81	Form of Crazy Eddie, Inc. Capital Accumulation Plan and Trust, effective December 31, 1986	
22.1	Subsidiaries	
24.1	Consent of Peat Marwick Main & Co. (successor to KMG Main Hurdman)	
28.1	Complaint filed in <u>Bernstein v. Crazy Eddie, Inc. and Eddie Antar</u> (E.D.N.Y. Jan. 7, 1987)	
28.2	Complaint filed in <u>Kaun v. Crazy Eddie, Inc. and Eddie Antar</u> (E.D.N.Y. Mar. 11, 1987)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
28.3	Complaint filed in <u>Schwartz, et al. v. Eddie Antar, et al.</u> (Del. Ch. Mar. 3, 1987)	
28.4	Complaint filed in <u>Berman v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 21, 1987)	
28.5	Complaint filed in <u>Eisner v. Crazy Eddie, Inc. et al.</u> (Del. Ch. May 21, 1987)	
28.6	Complaint filed in <u>Greenfield v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 21, 1987)	
28.7	Complaint filed in <u>Papastamatakis v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 21, 1987)	
28.8	Complaint filed in <u>Schwartz, et al. v. Eddie Antar, et al.</u> (Del. Ch. May 21, 1987)	
28.9	Complaint filed in <u>Stett v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 21, 1987)	
28.10	Complaint filed in <u>Three Bridges Investment Group v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 21, 1987)	
28.11	Complaint filed in <u>Warren and Roth v. Eddie Antar, et al.</u> (Del. Ch. May 21, 1987)	
28.12	Complaint filed in <u>Hayman and Schlessinger v. Eddie Antar, et al.</u> (Del. Ch. May 22, 1987)	
28.13	Complaint filed in <u>Laurenzano v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 22, 1987)	
28.14	Complaint filed in <u>Stepak v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 22, 1987)	

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Page No.</u>
28.15	Complaint filed in <u>Tab-Fairfield v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 22, 1987)	
28.16	Complaint filed in <u>Cohen v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 26, 1987)	
28.17	Complaint filed in <u>Kaun v. Eddie Antar, et al.</u> (Del. Ch. May 27, 1987)	
28.18	Complaint filed in <u>Hoffman v. Crazy Eddie, Inc., et al.</u> (Del. Ch. May 28, 1987)	
28.19	Complaint filed in <u>Goldslager v. Crazy Eddie, Inc., et al.</u> (Del. Ch. June 4, 1987)	
28.20	Complaint filed in <u>Rottman v. Crazy Eddie, Inc., et al.</u> (D.N.J. June 2, 1987)	
28.21	Complaint filed in <u>The People of the State of New York v. Crazy Eddie, Inc., et al.</u> (N.Y. Sup. Ct. Dec. 1, 1986)	
28.22	Complaint filed in <u>Crazy Eddie, Inc., et al. v. William Cotter, et al.</u> (S.D.N.Y. Dec. 1, 1986)	
28.23	Letter, dated May 20, 1987, to the Board of Directors of the Company from First City Capital Corp. and Eddie Antar	
28.24	Letter, dated May 29, 1987, to the Board of Directors of the Company from Entertainment Marketing Incorporated	
28.25	Letter, dated June 9, 1987, to the Board of Directors of the Company from Entertainment Marketing Incorporated	
28.26	Letter, dated June 5, 1987, to the Chairman of Entertainment Marketing Incorporated from Paul, Weiss, Rifkind, Wharton & Garrison	