# FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-29**
**SEC Accession No.** 0000719721-95-000004

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## FILER

**MERRY GO ROUND ENTERPRISES INC**

CIK:**719721**| IRS No.: **520913402** | State of Incorp.:**MD** | Fiscal Year End: **0131**
Type: **10-Q** | Act: **34** | File No.: **001-10491** | Film No.: **95546818**
SIC: **5651** Family clothing stores

Mailing Address
*3300 FASHION WAY*
*JOPPA MD 21085*

Business Address
*3300 FASHION WAY*
*JOPPA MD 21085*
*3015381000*

BAODOCS1/0019033.01

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
_ _ _ SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 29, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
_ _ _ SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-10491

MERRY-GO-ROUND ENTERPRISES, INC.
- ----------
- ----------
(Exact name of registrant as specified in its charter)

| Maryland | 52-0913402 |
|---|---|
| State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

3300 Fashion Way, Joppa, Maryland
21085
- ----------
- ----------
(Address of principal executive offices)
(Zip Code)

410-538-1000
- ----------
- --
(Registrant's telephone number, including area code)

Neither name, address nor fiscal year has been changed since the last report.
- ----------
- ----------
(Former name, former address and formal fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- ---

Number of shares of Common Stock outstanding as of June 9, 1995: 53,931,008.

MERRY-GO-ROUND ENTERPRISES, INC.

INDEX

PART I: FINANCIAL INFORMATION
Item 1. Financial Statements

MERRY-GO-ROUND ENTERPRISES, INC.
DEBTOR-IN-POSSESSION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | |
|---|---|---|
| | April 29, 1995 | April 30, 1994 |
| Net sales | $121,400,000 | $169,016,000 |
| Costs and expenses: | | |
| Costs of sales, buying and occupancy | 103,339,000 | 139,026,000 |
| Selling and administrative | 32,939,000 | 49,952,000 |
| Interest expense, net | 429,000 | 68,000 |
| Total | 136,707,000 | 189,046,000 |
| Earnings (loss) before reorganization costs and income tax (benefit) expense | (15,307,000) | (20,030,000) |
| Reorganization costs, net | 3,889,000 | 7,009,000 |
| Earnings (loss) before income tax (benefit) expense | (19,196,000) | (27,039,000) |
| Income tax (benefit) expense | - | (2,974,000) |
| Net earnings (loss) | $(19,196,000) | $(24,065,000) |
| Earnings (loss) per share of common stock | $ (.36) | $ (.45) |
| Weighted average number of shares outstanding | 53,931,008 | 53,932,335 |

See accompanying notes to consolidated financial statements.

MERRY-GO-ROUND ENTERPRISES, INC.

DEBTOR-IN-POSSESSION
CONSOLIDATED BALANCE SHEETS

<CAPTION>

| | April 29, 1995 (Unaudited) | January 28, 1995 (Note) |
|---|---|---|
| ASSETS | | |
| <S> | <C> | <C> |
| Current assets: | | |
| Cash and cash equivalents | $17,609,000 | $ 58,372,000 |
| Receivables | 3,068,000 | 7,594,000 |
| Merchandise inventories | 66,342,000 | 48,088,000 |
| Prepaid expenses and other | 3,410,000 | 2,348,000 |
| Refundable income taxes | 16,596,000 | 16,811,000 |
| Total current assets | 107,025,000 | 133,213,000 |
| Property and equipment, at cost: | | |
| Land and land improvements | 4,307,000 | 4,495,000 |
| Buildings | 32,712,000 | 36,811,000 |
| Leasehold improvements | 110,294,000 | 111,902,000 |
| Furniture, fixtures and equipment | 156,571,000 | 158,375,000 |
| | 303,884,000 | 311,583,000 |
| Less accumulated depreciation and amortization | 121,874,000 | 117,518,000 |
| Net property and equipment | 182,010,000 | 194,065,000 |
| Other | 2,094,000 | 1,145,000 |
| | $291,129,000 | $328,423,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable, trade | $ 14,179,000 | $ 14,309,000 |
| Other payables and accrued expenses | 37,020,000 | 49,543,000 |
| Total current liabilities | 51,199,000 | 63,852,000 |
| Noncurrent liabilities: | | |
| Long-term debt | 10,000,000 | 10,000,000 |

| | | |
|---|---|---|
| Other | 10,150,000 | 10,398,000 |
| Total noncurrent liabilities | 20,150,000 | 20,398,000 |
| Liabilities subject to compromise under reorganization proceedings (note 2) | 233,195,000 | 238,474,000 |
| Stockholders' equity (deficit): | | |
| Common stock of $.01 par value per share: Authorized 100,000,000 shares; issued and outstanding 53,931,008 shares at April 29, 1995 and January 28, 1995 | 539,000 | 539,000 |
| Additional paid-in capital | 71,544,000 | 71,462,000 |
| Retained earnings (deficit) | (85,498,000) | (66,302,000) |
| Total stockholders' equity (deficit) | (13,415,000) | 5,699,000 |
| | $ 291,129,000 | $328,423,000 |

<FN>
Note - The consolidated balance sheet at January 28, 1995 has been derived from the audited consolidated financial statements at that date.

See accompanying notes to consolidated financial statements.
</TABLE>

<TABLE>

MERRY-GO-ROUND ENTERPRISES, INC.
DEBTOR-IN-POSSESSION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<CAPTION>

| | Three Months Ended | |
|---|---|---|
| | April 29, 1995 | April 30, 1994 |
| <S> | <C> | <C> |
| Operating activities: | | |
| Net loss | $(19,196,000) | $(24,065,000) |

| | | | |
|---|---|---|---|
| Adjustments to reconcile net earnings (loss) to net cash used in operating activities: | | | |
| Reorganization items | (3,377,000) | 7,341,000 | |
| Depreciation and amortization | 6,389,000 | 9,080,000 | |
| Provision for deferred income taxes | - - | 1,490,000 | |
| Loss on disposal of property and equipment | | - | 196,000 |
| Amortization of restricted common stock | | 82,000 | 139,000 |
| Change in operating assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Receivables | | 4,526,000 | (536,000) |
| Merchandise inventories | (18,254,000) | (29,984,000) | |
| Prepaid expenses and other | (1,062,000) | (1,359,000) | |
| Refundable income taxes | 215,000 | (4,392,000) | |
| Other assets | | (1,139,000) | (390,000) |
| Increase (decrease) in: | | | |
| Accounts payable, trade | (130,000) | 19,070,000 | |
| Other payables and accrued expenses | (7,064,000) | (7,015,000) | |
| Other noncurrent liabilities | (248,000) | 246,000 | |
| Operating payables subject to compromise under reorganization proceedings | | (626,000) | (396,000) |
| Net cash used in operating activities | | (39,884,000) | (30,575,000) |
| Investing activities: | | | |
| Property and equipment expenditures | | (883,000) | (3,214,000) |
| Proceeds from sales of property and equipment | | 4,657,000 | 220,000 |
| Net cash provided by (used in) investing activities | | 3,774,000 | (2,994,000) |

| | | |
|---|---|---|
| Financing activities: | | |
| Repayment of secured notes payable | (4,653,000) | - |
| Net cash used in financing activities | (4,653,000) | - - |
| Net decrease in cash and cash equivalents | (40,763,000) | (33,569,000) |
| Cash and cash equivalents at beginning of period | 58,372,000 | 113,119,000 |
| Cash and cash equivalents at end of period | $17,609,000 | $ 79,550,000 |

<FN>
See accompanying notes to consolidated financial statements.
</TABLE>

MERRY-GO-ROUND ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. REORGANIZATION AND BASIS OF REPORTING

Merry-Go-Round Enterprises, Inc. (the "Company"), a national specialty retailer of contemporary fashions for young men and women, operated 990 stores in 43 states and Washington, D.C. at April 29, 1995.

Almost all of the Company's stores are located in enclosed regional shopping malls and are leased. The geographic distribution of the retail stores by regions of the United States was as follows: East North Central, 227 stores; East South Central, 53 stores; Mid-Atlantic, 163 stores; Mountain, 33 stores; New England, 71 stores; Pacific, 87 stores; South Atlantic, 205 stores; West North Central, 36 stores; and West South Central, 115 stores.

During the first quarter of fiscal 1996, the numbers of stores opened, closed and converted to other concepts, were as follows:

<TABLE>
<CAPTION>

| Open at January 28, 1995 | Stores Opened | Stores Closed | Open at April 29, Stores |
|---|---|---|---|

| Converted | 1995 | | | | | |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | |
| Concept | | | | | | |
| Merry-Go-Round | 467 | - | (6) | | | |
| 2 | 463 | | | | | |
| Dejaiz/Attivo | 232 | - | (5) | | | |
| (2) | 225 | | | | | |
| Chess King | 214 | - | (5) | | | |
| - - | 209 | | | | | |
| Cignal | 73 | - | - | | | |
| - - | 73 | | | | | |
| Fashion Outlets | 17 | 1 | (1) | | | |
| - - | 17 | | | | | |
| Boogies Diner | 3 | - | | | | |
| - - | - | 3 | | | | |
| | 1,006 | 1 | (17) | | | |
| - - | 990 | | | | | |

On January 11, 1994, the Company and two of its subsidiaries filed voluntary petitions for relief under Chapter 11 ("Chapter 11") of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Maryland, Baltimore Division (the "Court"). During fiscal 1995, various other subsidiaries of the Company filed voluntary petitions for relief under Chapter 11. The Company and such subsidiaries are presently operating their businesses as debtors-in-possession under the jurisdiction of the Court.

At this time it is not possible to predict the outcome of the Company's Chapter 11 proceedings as a general matter, or the effect of the proceedings on the Company or on the interests of prepetition creditors and stockholders. The uncertainty regarding the eventual outcome of the Chapter 11 proceedings and the effects of other unknown adverse factors could threaten the Company's existence as a going concern.

The accompanying consolidated financial statements have been presented on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As a result of the Chapter 11 filing and circumstances relating to this event, realization of assets and satisfaction of liabilities is subject to uncertainty. The final plan of reorganization could materially change the amounts reported in the accompanying consolidated financial statements, which do not give effect to adjustments to the carrying values of assets and liabilities which may be necessary as a consequence of a plan of reorganization. The

ability of the Company to continue as a going concern is dependent on, among other things, a successful top management transition, future profitable operations, continued timely flow of merchandise inventory, maintenance of financing sources to meet current and future obligations, including compliance with debtor-in-possession financing agreements, maintenance of vendor and factor confidence, the ability to generate sufficient cash from operations, renewal of desirable store leases, the availability of a financing commitment for post-effective date financing on acceptable terms and conditions, and confirmation of an acceptable plan of reorganization.

In view of the Chapter 11 reorganization, there is uncertainty with respect to the Company's liquidity. The Company believes that at the present time its working capital, including cash on hand, cash management measures, anticipated net cash provided by operating activities, factor and vendor trade credit and debtor-in-possession financing should enable the Company to meet its short-term liquidity requirements. However, any change in the current status of these or other items affecting the Company, including adverse operating results, a reduction in vendor or factor trade credit or loss or inadequacy of debtor-in-possession financing could have a materially adverse effect on the Company's liquidity and on its operations.

On June 12, 1995, the Company and General Electric Capital Corporation ("GE Capital") and Citicorp USA ("CUSA") (together, the "Proposed Lenders") executed a commitment letter (the "Commitment") and a related fee letter to provide the Company new debtor-in-possession financing. Pursuant to the Commitment, GE Capital and CUSA would provide working capital financing in the principal amounts of up to $50 million and $40 million, respectively (together, the "Facility"). The Commitment provides for the issuance of guarantees of letters of credit. Borrowings, including such guarantees, may not exceed the lesser of (i) $90 million or (ii) 50% (55% in September through November subject to the satisfaction of certain conditions and 45% in January and February 1996) of eligible inventory as defined from time to time by the Proposed Lenders, after deductions for certain reserves in the discretion of the Proposed Lenders, including professional fees and a seasonal reserve in certain periods (the "Borrowing Base"). Had the Company's

financing been based on the terms set forth in the Commitment, the credit availability under the Facility at May 27, 1995 would have been higher than under its existing credit agreement.

Advances under the Facility would constitute an

administrative claim with priority over all other administrative claims in the Chapter 11 case and would be secured by a fully perfected first priority lien (second priority in the case of the Company's headquarters and distribution center facility) in all of the Company's real and personal property, subject only to valid, enforceable and non-voidable pre-existing liens. The term of the Facility would expire on the earlier to occur of (i) October 15, 1996, (ii) the effective date of a plan of reorganization, or (iii) default under the terms of, and acceleration of, the loan.

A reduction by the Company in the Commitment below $50 million, termination of the financing by the Company, or a conversion of the Company's Chapter 11 case to a Chapter 7 case, would require the payment of a 2% early termination fee. The Company is required to enter into acceptable cash sweep bank account arrangements and, for a period of 30 consecutive days in January 1996, the Commitment provides that there are to be no cash borrowings outstanding under the Facility.

Cash borrowings would bear interest at a floating rate equal to 1.5%, plus the higher of (i) the base rate established by Citibank from time to time, (ii) a rate based on a three-month average of three-month certificates of deposit of major U.S. banks or (iii) one-half of one percent above the Federal Funds rate. Fees would include a Trade Letter of Credit fee of 2.0% per annum and a Standby Letter of Credit fee of 2.25% per annum, on the face amount of trade letters of credit and standby letters of credit, respectively, subject to guarantees under the Facility, customary letter of credit issuing and other bank fees and an Unused Facility Fee of 0.5% per annum on unused amounts under the Facility. In addition, the Company has agreed to pay certain additional closing fees and administrative fees, a portion of which could be credited against fees due in connection with exit financing. The Company has paid $200,000 and expects to pay an additional $550,000 upon authorization of the Commitment by the Bankruptcy Court, which fees are non-refundable but will be credited against closing fees.

The consummation of the Financing is subject to certain conditions, including the completion of the Proposed Lenders' due diligence investigation and the negotiation and completion of final financing agreements to the satisfaction of the Proposed Lenders and their counsel, including customary representations and warranties and certain financial covenants (including minimum levels of earnings before interest, taxes, depreciation and amortization (EBITDA), capital expenditures, fixed charge coverage ratios and net worth), measured on a quarterly basis; the approval

of the Bankruptcy Court; the absence of events having a material adverse change on the Company; and a management transition satisfactory to the Proposed Lenders. The Commitment expires on July 13, 1995.

The consolidated financial statements included herein do not include all the information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles. For further information, such as the significant accounting policies followed by the Company, refer to the notes to consolidated financial statements contained in the fiscal 1995 Annual Report.

In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation for the interim periods have been included in the consolidated financial statements.

The results of operations for the period ended April 29, 1995, are not necessarily indicative of the operating results to be expected for the full year.

2. LIABILITIES SUBJECT TO COMPROMISE

Liabilities subject to compromise as of April 29, 1995 and January 28, 1995 consisted of:

<TABLE>
<CAPTION>

| | April 29, 1995 | January 28, 1995 |
|---|---|---|
| <S> | <C> | <C> |
| Secured note payable | $ - | $ 4,997,000 |
| Unsecured liabilities: | | |
| Accounts payable, trade | 39,022,000 | 39,176,000 |
| Other payables and accrued expenses | 55,240,000 | 55,368,000 |
| Revolving credit debt | 44,520,000 | 44,520,000 |
| Chess King acquisition debt | 29,413,000 | 29,413,000 |
| Institutional investor notes | 65,000,000 | 65,000,000 |
| | $233,195,000 | $238,474,000 |

</TABLE>

The secured note payable was satisfied in part on

February 28, 1995, as a result of the sale of the retail location securing the note. The creditor received net proceeds of $4,653,000 and may be allowed an unsecured claim in Court for the remaining balance of $344,000 which is classified in other payables and accrued expenses at April 29, 1995.

A plan of reorganization ultimately confirmed by the Bankruptcy Court may materially change the amounts and terms of these prepetition liabilities.

3. REORGANIZATION COSTS, NET

Reorganization costs recorded in the first quarter of fiscal 1996 and 1995 consisted of:

<TABLE>
<CAPTION>

| | 1996 | 1995 |
|---|---|---|
| < S> | <C> | <C> |
| Write-off of leasehold improvements and fixtures associated with closed stores | | $ 600,000 $2,722,000 |
| Estimated lease rejection claims | | - 2,224,000 |
| Professional fees | 1,958,000 | 2,200,000 |
| Employee retention and severance programs and related payroll taxes and employee benefits | 783,000 | - - |
| Other | 969,000 | 244,000 |
| Interest Income | (421,000) | (381,000) |
| | $3,889,000 | $7,009,000 |

</TABLE>

4. INCOME TAX BENEFIT - No income tax benefit has been recorded for the first quarter of fiscal 1996, as the Company has exhausted its available net operating loss carrybacks permitted under the federal and state tax codes. The benefit of net operating loss carryforwards will be reflected in future periods when it becomes more likely than not that the benefit will be realized.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company is a national specialty retailer of contemporary fashion primarily for young men and women. As of April 29, 1995, the Company operated 990 stores in 43 states and Washington, D.C. The following discussion explains material changes in the results of operations comparing the first quarter of fiscal years 1996 and 1995 and significant developments affecting the Company's financial condition since the end of fiscal 1995.

## CHAPTER 11 REORGANIZATION

On January 11, 1994, the Company and two of its subsidiaries filed voluntary petitions for relief under Chapter 11 in the U.S. Bankruptcy Court for the District of Maryland, Baltimore Division (the Court). During fiscal 1995, various other subsidiaries of the Company filed voluntary petitions for relief under Chapter 11. The Company and such subsidiaries are presently operating their businesses as debtors-in-possession under the jurisdiction of the Court.

On February 23, 1995, the Company and its official creditors' and equity committees (collectively the "Plan Proponents") filed a Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code (the "Plan"). Conditions to the confirmation of the Plan are that 1) the Company obtain a commitment for post-effective date financing (a "Financing Commitment"); 2) the notice for a confirmation hearing be given not later than September 5, 1995; and 3) the Court confirm the Plan no later than October 2, 1995. The effectiveness of the Plan is subject to the satisfaction or waiver of all conditions to the advancement of funds under the Financing Commitment by the effective date which may not be later than October 31, 1995. Any condition may be waived by unanimous consent of the Company, the creditors' and equity committees and two major stakeholders, Fidelity Management & Research Company and Bear, Stearns & Co., Inc. (collectively, the "Stakeholders"), except for the Financing Commitment which may be waived by majority consent of such parties. Successful implementation of the Plan will depend on, among other things, the successful implementation and validation of the Company's business plan, the availability of a Financing Commitment on acceptable terms and conditions, and acceptance of the Plan by the numbers and amounts of impaired prepetition creditors and stockholders required by the Bankruptcy Code. The Company's business plan contains net sales and EBITDA targets. As previously reported, the Company did not meet its net sales targets for February, March or May, 1995. The Company met its EBITDA targets for February, March and April and its net sales target for April. The Company does not expect its EBITDA target for May to be

achieved.

In view of sales levels for the first quarter of fiscal 1996 and May 1995, the Company currently is revising its business plan. The Company has not completed

revisions to its business plan, but expects on a preliminary basis that the revised business plan will contain marginally lower targets for net sales and an EBITDA target for fiscal 1996 in the range of approximately $15 million to $20 million. The anticipated revisions to the business plan could have an adverse effect on the successful implementation of the Plan. In view of this and other uncertainties regarding the conditions to the Plan's successful implementation, there can be no assurance that the Plan will be confirmed or become effective. The Plan may require material modification and, in the event of a lack of agreement among the Company and the Stakeholders as to such modification, could be withdrawn. If no plan of reorganization is successfully implemented, the Company could be liquidated. Certain modifications to the Plan or a failure to successfully implement the Plan could have a material adverse effect on the value of the stockholders' interest in the Company.

## RESULTS OF OPERATIONS

The consolidated financial statements have been presented on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As a result of the Chapter 11 filing and circumstances relating to this event, realization of assets and satisfaction of liabilities is subject to uncertainty. The final plan of reorganization could materially change the amounts reported in the consolidated financial statements, which do not give effect to all adjustments to the carrying values of assets and liabilities which may be necessary as a consequence of a plan of reorganization. The ability of the Company to continue as a going concern is dependent on, among other things, a successful top management transition, future profitable operations, continued timely flow of merchandise inventory, maintenance of financing sources to meet current and future obligations, including compliance with debtor-in-possession financing agreements, maintenance of vendor and factor confidence, the ability to generate sufficient cash from operations, renewal of desirable store leases, the availability of a financing commitment for post-effective date financing on acceptable terms and conditions, and confirmation of an acceptable plan of reorganization, none of which can be assured.

Net Sales - Net sales decreased $47.6 million or 28.2% in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. The decrease was due to several factors including closing 436 underperforming stores during fiscal 1995, resulting in a decrease of 28.7% in the weighted average number of stores open during the quarter. In addition, sales per selling square foot decreased from approximately $46 in the first quarter of fiscal 1995 to approximately $39 in the first quarter of fiscal 1996. The decrease in sales is attributable to difficult and highly competitive and promotional market conditions in the specialty retail apparel industry, lower than desirable inventory levels early in the first quarter, the continuing effects of the merchandising transition in the Dejaiz and Cignal stores, lower than expected sales of dresses, and a comparatively higher level of clearance sales of fall merchandise in the same period last year. In addition, approximately $9.2 million in sales at closed stores realized during closing periods were classified along with cost of sales and store operating expenses as reorganization costs.

Comparable store sales decreased 12.5% in the first quarter of fiscal 1996 as a result of factors described above.

Cost of Sales, Buying and Occupancy - Cost of sales, buying and occupancy decreased $35.7 million or 25.7% in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. As a percentage of net sales, these costs were 85.1% for the first quarter of fiscal 1996, compared to 82.3% for the comparable period in fiscal 1995. The costs as a percentage of net sales increased in fiscal 1996 primarily due to the lower sales productivity discussed above.

Selling and Administrative Expenses - Selling and administrative expenses decreased $17.0 million or 34.1% in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. Selling and administrative expenses as a percentage of net sales were 27.1% in fiscal 1996 compared to 29.6% in fiscal 1995. The decrease in these expenses as a percentage of net sales in fiscal 1996 is the result of management's program to bring selling and administrative costs in line with current sales volumes. This program has resulted in expense reductions in store operations, the corporate office and the distribution center.

Interest Expense, Net - Interest expense was $461,000 and $322,000 and interest income was $32,000 and $254,000 for the first quarter of fiscal years 1996 and 1995, respectively. Under the Bankruptcy Code, prepetition liabilities generally do not continue to accrue interest unless the debt is clearly collateralized by assets having current fair market values in

excess of the amount of the debt. Therefore, interest has not been accrued on any of the Company's prepetition obligations except for a $10 million note payable secured by the headquarters and distribution center facility. Interest income in the amount of approximately $421,000 in the first quarter of fiscal 1996, and $381,000 in the first quarter of fiscal 1995 has been classified as a reduction in reorganization costs in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code".

Reorganization Costs - The Company recorded $3.9 million and $7.0 million for costs associated with reorganization under Chapter 11 protection in the first quarter of fiscal 1996 and 1995, respectively. These costs include:

<TABLE>
<CAPTION>

| | 1996 | 1995 |
|---|---|---|
| <S> | <C> | <C> |
| Write-off of leasehold improvements and fixtures associated with closed stores | $ 600,000 | $2,722,000 |
| Estimated lease rejection claims | - | 2,224,000 |
| Professional fees | 1,958,000 | 2,200,000 |
| Employee retention and severance programs and related payroll taxes and fringe benefits | 783,000 | - |
| Other | 969,000 | 244,000 |
| Interest income | (421,000) | (381,000) |
| Total | $3,889,000 | $7,009,000 |

</TABLE>

The Company anticipates that it will incur additional reorganization costs for the remainder of its Chapter 11 reorganization.

Income tax benefit - No income tax benefit has been recorded for the first quarter of fiscal 1996, as the Company has exhausted its available net operating loss carrybacks permitted under the federal and state tax codes. The benefit of net operating loss carryforwards will be reflected in future periods when it becomes more likely than not that the benefit will be realized.

Net loss - The net loss was $19.1 million in the first quarter of fiscal 1996 as compared to $24.1 million in the first quarter of fiscal 1995. The reduction in the net loss is the result of reduced selling and administrative expenses as a percent of sales and lower reorganization costs, offset

in part by the impact of lower sales productivity.

Earnings before interest, income taxes, depreciation, amortization and reorganization costs (EBITDA), supplemental financial information generally reported by debtors-in-possession, were negative $8.5 million in the first quarter of fiscal 1996 compared to negative $10.8 million in the first quarter of fiscal 1995.

## LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities during the first quarter of fiscal 1996 was approximately $39.9 million compared to $30.6 million for the first quarter of fiscal 1995. The increase in cash used by operating activities is due primarily to a decrease of trade payables in the first quarter of fiscal 1996 compared to an increase in trade payables in the first quarter of fiscal 1995. Trade payables at April 30, 1994 increased from January 29, 1994 as a result of the build-up of merchandise inventory and of the fact that trade payables were depressed by the January 1994 filing for bankruptcy protection.

Property and equipment expenditures were $883,000 in the first quarter of fiscal 1996 compared to $3.2 million for the first quarter of fiscal 1995. The capital expenditures for fiscal 1996 and fiscal 1995 were principally for store openings and remodelings.

The Company's net operating loss for fiscal 1995 was carried back to prior fiscal years, resulting in refundable Federal and state income taxes paid in such years. In May, 1995 the Company received refunds of Federal income taxes in the aggregate amount of approximately $19.5 million.

The Company currently contemplates that it will open one new store and remodel 19 stores during the remainder of fiscal 1996 at a cost of approximately $5.0 million, and make other capital expenditures of approximately $4.0 million.

The Company has a $100 million unsecured revolving credit agreement as debtor-in-possession with a group of financial institutions. The agreement provides for cash borrowings and the issuance of up to $80 million in letters of credit which in the aggregate

cannot exceed the lower of a "borrowing base" or $100 million. The "borrowing base" is equal to the sum of 40% of eligible inventory, as defined in the agreement, plus 40% of inventory on order under international letters of credit, less $2.5 million. As of May 27, 1995, the borrowing base was $34.0 million, of which approximately $3.4 million was

available under the credit agreement.

Cash borrowings bear interest at the prime rate established by Chemical Bank plus 1.25%. The agreement also requires a monthly unused line fee of .5% per annum and an annual agent fee of $100,000. Letter of credit fees are 2% per annum for standby letters of credit and 1.75% per annum for documentary letters of credit.

Cash borrowings and letters of credit issued under the agreement have been granted super priority status by the Court over all obligations except certain administrative expenses, as defined in the agreement.

During the term of the agreement, the Company cannot pay dividends and is required to meet minimum levels of earnings before interest, income taxes, depreciation and amortization and certain reorganization costs, maintain inventory levels between specified minimum and maximum levels, and limit capital expenditures. Financial covenants under the Company's existing credit facility were based on financial projections which assumed, among other things, sales forecasts, economic conditions, the achievement of expense savings initiatives, inventory management and other factors which are subject to uncertainties and contingencies, many of which are beyond the Company's control. Accordingly, particularly in view of recent and anticipated sales and EBITDA results, the Company's continued compliance with its financial covenant requirements under its existing facility is not assured.

Any borrowings outstanding are payable on the earlier of April 21, 1996, or the date of consummation of a plan of reorganization.

On June 12, 1995, the Company and General Electric Capital Corporation ("GE Capital") and Citicorp USA ("CUSA") (together, the "Proposed Lenders") executed a commitment letter (the "Commitment") and a related fee letter to provide the Company new debtor-in-possession financing. Pursuant to the Commitment, GE Capital and CUSA would provide working capital financing in the principal amounts of up to $50 million and $40 million, respectively (together, the "Facility"). The Commitment provides for the issuance of guarantees of letters of credit. Borrowings, including such guarantees, may not exceed the lesser of (i) $90 million or (ii) 50% (55% in September through November subject to the satisfaction of certain conditions and 45% in January and February 1996) of eligible inventory as defined from time to time by the Proposed Lenders, after deductions for certain reserves in the discretion of the Proposed Lenders, including professional fees and a seasonal reserve in certain periods

(the "Borrowing Base"). Had the Company's financing been based on the terms set forth in the Commitment, the credit availability under the Facility at May 27, 1995 would have been higher than under its existing credit agreement.

Advances under the Facility would constitute an administrative claim with priority over all other administrative claims in the Chapter 11 case and would be secured by a fully perfected first priority lien (second priority in the case of the Company's headquarters and distribution center facility) in all of the Company's real and personal property, subject only to valid, enforceable and non-voidable pre-existing liens. The term of the Facility would expire on the earlier to occur of (i) October 15, 1996, (ii) the effective date of a plan of reorganization, or (iii) default under the terms of, and acceleration of, the loan.

A reduction by the Company in the Commitment below $50 million, termination of the financing by the Company, or a conversion of the Company's Chapter 11 case to a Chapter 7 case, would require the payment of a 2% early termination fee. The Company is required to enter into acceptable cash sweep bank account arrangements and, for a period of 30 consecutive days in January 1996, the Commitment provides that there are to be no cash borrowings outstanding under the Facility.

Cash borrowings would bear interest at a floating rate equal to 1.5%, plus the higher of (i) the base rate established by Citibank from time to time, (ii) a rate based on a three-month average of three-month certificates of deposit of major U.S. banks or (iii) one-half of one percent above the Federal Funds rate. Fees would include a Trade Letter of Credit fee of 2.0% per annum and a Standby Letter of Credit fee of 2.25% per annum, on the face amount of trade letters of credit and standby letters of credit, respectively, subject to guarantees under the Facility, customary letter of credit issuing and other bank fees and offer bank fees and an Unused Facility Fee of 0.5% per annum on unused amounts under the Facility. In addition, the Company has agreed to pay certain additional closing fees and administrative fees, a portion of which could be credited against fees due in connection with exit financing. The Company has paid $200,000 and expects to pay an additional $550,000 upon authorization of the Commitment by the Bankruptcy Court, which fees are non-refundable but will be credited against closing fees.

The consummation of the Financing is subject to certain conditions, including the completion of the Proposed Lenders' due diligence investigation and the negotiation and completion of final financing agreements to the satisfaction

of the Proposed Lenders and their counsel, including customary representations and warranties and certain financial covenants (including minimum levels of earnings before interest, taxes, depreciation and amortization (EBITDA), capital expenditures, fixed charge coverage ratios and net worth), measured on a quarterly basis; the approval of the Bankruptcy Court; the absence of events having a material adverse change on the Company; and a management transition satisfactory to the Proposed Lenders. The Commitment expires on July 13, 1995.

In view of the Chapter 11 reorganization, there is uncertainty with respect to the Company's liquidity. The Company believes that at the present time its working capital, including cash on hand, cash management measures, anticipated net cash provided by operating activities, factor and vendor trade credit and debtor-in-possession financing

should enable the Company to meet its short-term liquidity requirements. However, any change in the current status of these or other items affecting the Company, including adverse operating results, a reduction in vendor or factor trade credit or loss or inadequacy of debtor-in-possession financing could have a materially adverse effect on the Company's liquidity and on its operations.

Part II: Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

| Number | Description |
|---|---|
| 3(b) | Bylaws of Registrant, amended as of May 4, 1995 |
| 10(ah) | Letter Agreement dated June 9, 1995 among General Electric Capital Corporation, Citicorp USA and the Registrant |
| 27 | Financial Data Schedule |

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MERRY-GO-ROUND ENTERPRISES, INC.

DATE June 13, 1995 /s/ Isaac Kaufman
Isaac Kaufman
Executive Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer)

DATE June 13, 1995 /s/ Robert J. Reiners
Robert J. Reiners
Vice President of Finance and Corporate Controller
(Principal Accounting Officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MERRY-GO-ROUND ENTERPRISES, INC.

DATE June 13, 1995

Isaac Kaufman
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

DATE June 13, 1995

Robert J. Reiners
Vice President of Finance and
Corporate Controller
(Principal Accounting Officer)

[CAPTION]
[FN]

Exhibit 3(b)

Amended as of May 4, 1995

# BYLAWS

# MERRY-GO-ROUND ENTERPRISES, INC.

## ARTICLE I.

## Stockholders

### Section 1. Annual Meetings.

The annual meeting of the stockholders of the Corporation shall be held on such date within the month of September as may be fixed from time to time by the Board of Directors. Not less than ten nor more than 90 days written or printed notice stating the place, day and hour of each annual meeting shall be given in the manner provided in Section 1 of Article IX hereof. The business to be transacted at the annual meetings shall include the election of directors and may include consideration and action upon the reports of officers and directors and any other business within the power of the Corporation. All annual meetings shall be general meetings at which any business may be considered without being specified as a purpose in the notice unless otherwise required by law.

### Section 2. Special Meetings Called by Chairman of the Board, President or Board of Directors.

At any time in the interval between annual meetings, special meetings of stockholders may be called by the Chairman of the Board, or by the President, or by the Board of Directors. Not less than ten days nor more than 90 days' written notice stating the place, day and hour of such meeting and the matters proposed to be acted on thereat shall be given in the manner provided in Section 1 of Article IX. No business shall be transacted at any special meeting except that specified in the notice.

### Section 3. Special Meeting Called by Stockholders.

Upon the request in writing delivered to the Secretary by stockholders entitled to cast at least 25% of all the

votes entitled to be cast at the meeting, it shall be the duty of the Secretary to call forthwith a special meeting of the stockholders. Such request shall state the purpose of such meeting and the matters proposed to be acted on thereat, and no other business shall be transacted at any such special meeting. The Secretary shall inform such stockholders of the reasonably estimated costs of preparing and mailing the notice of the meeting, and upon payment to the Corporation of such costs, the Secretary shall give not less than ten nor more than 90 days' notice of the time, place and purpose of the meeting in the manner provided in Section I of Article IX. If, upon payment of such costs the Secretary shall fail to issue a call for such meeting within thirty days after the receipt of such payment (unless such failure is excused by law), then the stockholders entitled to cast 25% or more of the outstanding shares entitled to vote may do so upon giving not less than ten days' nor more than 90 days' notice of the time, place and purpose of the meeting in the manner provided in Section I of Article IX. Unless requested by stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting, a special meeting need not be called to consider any matter which is substantially the same as a matter voted on at any special meeting of the stockholders held during the preceding 12 months.

Section 4. Place of Meetings.

All meetings of stockholders shall be held at the principal office of the Corporation in the State of Maryland or at such other place within the United States as may be fixed from time to time by the Board of Directors and designated in the notice.

Section 5. Quorum.

At any meeting of stockholders the presence in person or by proxy of stockholders entitled to cast a majority of the votes thereat shall constitute a quorum.

Section 6. Adjourned Meetings.

A meeting of stockholders convened on the date for which it was called may be adjourned from time to time

without further notice to a date not more than 120 days after the record date, and any business may be transacted at any adjourned meeting which could have been transacted at the meeting as originally called. If notice of the

adjourned meeting is given in the manner required for a special meeting, any business specified in the notice may be transacted.

Section 7. Voting.

A majority of the votes cast at a meeting of stockholders, duly called and at which a quorum is present, shall be sufficient to take or authorize action upon any matter which may properly come before the meeting, unless more than a majority of votes cast is required by statute or by the Charter. A plurality of all the votes cast at a meeting at which a quorum is present is sufficient to elect a director. The Board of Directors may fix the record date for the determination of stockholders entitled to vote in the manner provided in Article VIII, Section 3 of these Bylaws.

Section 8. Proxies.

A stockholder may vote the shares owned of record by him either in person or by proxy executed in writing and signed by the stockholder or by his duly authorized attorney-in-fact. Every proxy shall be dated, but need not be sealed, witnessed or acknowledged. No proxy shall be valid after 11 months from its date, unless otherwise provided in the proxy. In the case of stock held of record by more than one person, any co-owner or co-fiduciary may execute the proxy without the joinder of his co-owner(s) or co-fiduciary(ies), unless the Secretary of the Corporation is notified in writing by any co-owner or co-fiduciary that the joinder of more than one is to be required. At all meetings of stockholders, the proxies shall be filed with

and verified by the Secretary of the Corporation, or, if the meeting shall so decide, by the Secretary of the meeting.

Section 9. Order of Business.

At all meetings of stockholders, unless otherwise determined by the Chairman of the meeting, the order of business shall be as follows:

(1) Organization

(2) Proof of notice of meeting or of waivers thereof. (The certificate of the Secretary of the Corporation, or the affidavit of any other person who mailed or published the notice or caused the same to be mailed or published, shall be proof of service of notice.)

(3) If an annual meeting, or a special meeting called for that purpose, the election of directors.

(4) Other business.

(5) Adjournment.

Section 10. Removal of Directors.

At any special meeting of the stockholders called in the manner provided for by this Article, the stockholders, by the affirmative vote of a majority of all the votes entitled to be cast for the election of directors, may remove any director or directors from office, with or without cause, and may elect a successor or successors to fill any resulting vacancies for the remainder of his or their terms.

Section 11. Informal Action by Stockholders.

Any action required or permitted to be taken at any meeting of stockholders may be taken without a meeting if a consent in writing setting forth such action is signed by all the stockholders entitled to vote thereon and such consent is filed with the records of stockholders' meetings.

Section 12. Advance Notice of Matters to be Presented at an Annual Meeting of Stockholders.

At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, otherwise be properly brought before the meeting by or at the direction of the Board of Directors or otherwise be properly brought before the meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 15 days nor more than 30 days prior to the meeting (or, with respect to a proposal required to be included in the Company's proxy statement pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, or its successor provision, the earlier date such proposal was received); provided, however, that in the

event that less than 30 days' notice or prior public disclosure of the date of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class and number of shares of the Corporation which are beneficially owned by the stockholder, and (iv) any material interest of the stockholder in such business.

Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 12; provided, however, that nothing in this Section 12 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting in accordance with said procedure.

No matter shall be considered at any meeting of the stockholders except upon a motion duly made and seconded. Any motion or second of a motion shall be made only by a natural person present at the meeting who either is a stockholder of the Company or is acting on behalf of a stockholder of the Company; provided, that if the person is acting on behalf of a stockholder, he or she must present a written statement executed by the stockholder or the duly authorized attorney of the stockholder on whose behalf he or she purports to act.

The presiding officer at the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 12, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 13. Advance Notice of Nominees for Directors.

Only persons who are nominated in accordance with the following procedures shall be eligible for election as Directors. Nominations of persons for election to the Board

of Directors of the Corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors, or by any nominating committee or person appointed by the Board of Directors, or by any stockholder of the Corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 13. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to he Secretary. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than

15 days nor more than 30 days prior to the meeting; provided, however, that in the event that less than 30 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received no later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth: (a) as to each person who the stockholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of stock of the Corporation which are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of Directors pursuant to Rule 14a under the Securities Exchange Act of 1934 or any successor rule thereto; and (b) as to the stockholder giving the notice, (i) the name and record address of the stockholder and (ii) the class and number of shares of the Corporation which are beneficially owned by the stockholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a Director of the Corporation. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth herein.

The presiding officer at the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 14. Maryland Control Share Act

The provisions of Subtitle 7 of Title 3 of the Maryland General Corporation Law shall not apply to the voting rights of

shares of capital stock of the Corporation acquired by any person, and any acquisition of such shares is hereby exempted from said Subtitle 7."

## ARTICLE II.

## Directors

Section 1. Powers.

The business and affairs of the Corporation shall be managed under the direction of its Board of Directors. All powers of the Corporation may be exercised by or under the authority of the Board of Directors except as conferred on or reserved to the stockholders by law, by the Charter or by these Bylaws. A director need not be a stockholder. The Board of Directors shall keep minutes of its meetings and full and fair accounts of its transactions.

Section 2. Number; Term of Office; Removal.

The number of directors of the Corporation shall be not less than three or the same number as the number of stockholders, whichever is less; provided, however, that such number may be increased and/or decreased from time to time by vote of a majority of the entire Board of Directors to a number not exceeding 15. Directors shall hold office for the term of one year, or until their successors are elected and qualify. A director may be removed from office as provided in Article I, Section 10 of these Bylaws.

Section 3. Annual Meeting; Regular Meetings.

As soon as practicable after each annual meeting of stockholders, the Board of Directors shall meet for the purpose of organization and the transaction of other business. No notice of the annual meeting of the Board of Directors need be given if it is held immediately following the annual meeting of stockholders and at the same place. Other regular meetings of the Board of Directors may be held

at such times and at such places, within or without the State of Maryland, as shall be designated in the notice for such meeting by the party making the call. All annual and regular meetings shall be general meetings, and any business may be transacted thereat.

Section 4. Special Meetings.

Special meetings of the Board of Directors may be called by the Chairman of the Board, or the President, or by a majority of the directors.

Section 5. Quorum; Voting.

A majority of the Board of Directors shall constitute a quorum for the transaction of business at every meeting of the Board of Directors; but, if at any meeting there be less than a quorum present, a majority of those present may adjourn the meeting from time to time, but not for a period exceeding ten days at any one time or 60 days in all, without notice other than by announcement at the meeting, until a quorum shall attend. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally called. Except as hereinafter provided or as otherwise provided by the Charter or by law, directors shall act by a vote of a majority of those members in attendance at a meeting at which a quorum is present.

Section 6. Notice of Meetings.

Notice of the time and place of every regular and special meeting of the Board of Directors shall be given to each director in the manner provided in Section 2 of Article VIII hereof. Subsequent to each Board meeting, each director shall be furnished with a copy of the minutes of said meeting. The purpose of any meeting of the Board of Directors need not be stated in the notice.

Section 7. Vacancies.

(a) If the office of a director becomes vacant for any reason other than removal or increase in the size of the

Board, such vacancy may be filled by the Board by a vote of a majority of directors then in office, although such majority is less than a quorum.

(b) If the vacancy occurs as a result of the removal of a director, the stockholders may elect a successor or may

delegate that authority to the Board of Directors.

(c) If the vacancy occurs as a result of an increase in the number of directors, it may be filled by vote of a majority of the entire Board of Directors.

(d) If the entire Board of Directors shall become vacant, any stockholder may call a special meeting in the same manner that the Chairman of the Board, the Vice Chairman of the Board or the President may call such meeting, and directors for the unexpired term may be elected at such special meeting in the manner provided for their election at annual meetings.

(e) A director elected by the Board of Directors to fill a vacancy shall serve until the next annual meeting of stockholders and until his successor is elected and qualifies. A director elected by the stockholders to fill a vacancy shall serve for the unexpired term and until his successor is elected and qualifies.

Section 8. Rules and Regulations.

The Board of Directors may adopt such rules and regulations for the conduct of its meetings and the management of the affairs of the Corporation as it may deem proper and not inconsistent with the laws of the State of Maryland or these Bylaws or the Charter.

Section 9. Committees.

The Board of Directors may appoint from among its members an executive committee and other committees of the Board of Directors, each committee to be composed of two or more of the directors of the Corporation. The Board of Directors may, to the extent provided in the resolution and

except those powers specifically denied by law, delegate to any committee, in the intervals between meetings of the Board of Directors, any or all of the powers of the Board of Directors in the management of the business and affairs of the Corporation. A committee or committees shall have the name or names as may be determined from time to time by the Board of Directors. Unless the Board of Directors designates one or more directors as alternate members of any committee, who may replace an absent or disqualified member at any meeting of the committee, the members of the committee present at any meeting and not disqualified from voting may, whether or not they constitute a quorum, unanimously appoint another member of the Board of Directors

to act at the meeting in the place of any absent or disqualified member of the committee. Two members of a committee shall constitute a quorum for the transaction of business and the act of a majority of the members and alternate members present at any meeting at which a quorum is present shall be the act of the committee. Action may be taken without a meeting if unanimous written consent is signed by all of the members of the Committee, and if such consent is filed with the records of the Committee. A committee shall have the power to elect one of its members to serve as its Chairman unless the Board of Directors shall have designated such Chairman. Any action taken by a committee within the limits permitted by law shall have the force and effect of Board action unless and until revised or altered by the Board.

Section 10. Compensation.

The directors may receive reasonable compensation for their services, including an annual retainer and a fixed sum and expenses of attendance at each regular or special meeting, as determined by resolution of the Board; provided, however, that nothing herein contained shall be construed as precluding a director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 11. Place of Meetings.

Regular or special meetings of the Board may be held within or without the State of Maryland, as the Board may

from time to time determine. The time and place of meeting may be fixed by the party making the call.

Section 12. Informal Action by the Directors.

Any action required or permitted to be taken at any meeting of the Board may be taken without a meeting, if a written consent to such action is signed by all members of the Board and such consent is filed with the minutes of the Board.

Section 13. Telephone Conference.

Members of the Board of Directors or any committee thereof may participate in a meeting of the Board or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time and participation by such means shall constitute

presence in person at the meeting.

## ARTICLE III.

## Officers

Section 1. In General.

The Board of Directors may choose a Chairman of the Board and a Vice Chairman of the Board from among the directors. The Board of Directors shall elect a President, one or more Vice Presidents, a Treasurer, a Secretary, and such Assistant Secretaries and Assistant Treasurers as may be chosen by the Board of Directors. All officers shall hold office for a term of one year and until their successors are chosen and qualify. Any two of the above offices, except those of President and Vice President, may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity when such instrument is required to be executed, acknowledged or verified by any two or more officers. The Board of Directors may from time to time appoint such other agents and employees with such powers and duties as they may

deem proper. In its discretion, the Board of Directors may leave unfilled any offices except those of President, Treasurer and Secretary.

Section 2. Chairman of the Board.

The Chairman of the Board, if one is elected, shall preside over the meetings of the Board at which he is present and shall have such other duties as may be determined by the Board of Directors.

Section 3. Vice Chairman of the Board.

The Vice Chairman, if one is elected, shall have such duties as may be determined by the Board of Directors and, in the absence of the Chairman of the Board, shall preside over the meetings of the Board at which he is present.

Section 4. President.

The President shall have such duties as may be determined by the Board of Directors. In the absence of the Chairman of the Board and Vice Chairman of the Board, he shall preside over the meetings of the Board at which he is present. He shall preside over meetings of the stockholders at which he is present and shall perform such other duties

as may be assigned to him by the Board of Directors. The President shall have the authority on the Corporation's behalf to endorse securities owned by the Corporation and to execute any documents requiring the signature of an executive officer.

Section 5. Vice Presidents.

The Board of Directors may elect one or more Executive, Senior or other Vice Presidents. The Vice Presidents, in the order of priority designated by the Board of Directors, shall be vested with all the power and may perform all the duties of the President in his absence. They may perform such other duties as may be prescribed by the Board of Directors or the President.

Section 6. Treasurer.

The Treasurer shall be the chief financial officer of the Corporation and shall have general supervision over its finances. He shall perform such other duties as may be assigned to him by the Board of Directors or the President. If required by resolution of the Board, he shall furnish bond (which may be a blanket bond) with such surety and in such penalty for the faithful performance of his duties as the Board of Directors may from time to time require, the cost of such bond to be defrayed by the Corporation.

Section 7. Secretary.

The Secretary shall keep the minutes of the meetings of the stockholders and of the Board of Directors and shall attend to the giving and serving of all notices of the Corporation required by law or these Bylaws. He shall maintain at all times in the principal office of the Corporation at least one copy of the Bylaws with all amendments to date, and shall make the same, together with the minutes of the meeting of the stockholders, the annual statement of affairs of the Corporation and any voting trust or other stockholders agreement on file at the office of the Corporation, available for inspection by any officer, director or stockholder during reasonable business hours. He shall perform such other duties as may be assigned to him by the Board of Directors.

Section 8. Assistant Treasurer and Secretary.

The Board of Directors may designate from time to time Assistant Treasurers and Secretaries, who shall perform such duties as may from time to time be assigned to them by the

Board of Directors or the President.

Section 9. Compensation; Removal; Vacancies.

The Board of Directors shall have power to fix the compensation of all officers of the Corporation. It may authorize any committee or officer, upon whom the power of appointing subordinate officers may have been conferred, to

fix the compensation of such subordinate officers. The Board of Directors shall have the power at any regular or special meeting to remove any officer, if in the judgment of the Board the best interest of the Corporation will be served by such removal. The Board of Directors may authorize any officer to remove subordinate officers. The Board of Directors may authorize the Corporation's employment of an officer for a period in excess of the term of the Board. The Board of Directors at any regular or special meeting shall have power to fill a vacancy occurring in any office for the unexpired portion of the term.

Section 10. Substitutes.

The Board of Directors may from time to time in the absence of any one of its officers or at any other time, designate any other person or persons, on behalf of the Corporation to sign any contracts, deeds, notes or other instruments in the place or stead of any of such officers, and may designate any person to fill any one of said offices, temporarily or for any particular purpose; and any instruments so signed in accordance with a resolution of the Board shall be the valid act of the Corporation as fully as if executed by any regular officer.

## ARTICLE IV.

## Resignation

Any director or officer may resign his office at any time. Such resignation shall be made in writing and shall take effect from the time of its receipt by the Corporation, unless some time be fixed in the resignation, and then from that date. The acceptance of a resignation shall not be required to make it effective.

## ARTICLE V.

Commercial Paper, Etc.

All bills, notes, checks, drafts and commercial paper of all kinds to be executed by the Corporation as maker, acceptor, endorser or otherwise, and all assignments and transfers of stock, contracts, or written obligations of the Corporation, and all negotiable instruments, shall be made in the name of the Corporation and shall be signed by any one or more of the following officers, i.e., the Chairman of the Board, the President, any Vice President, or the Treasurer, or by such other person or persons as the Board of Directors may from time to time designate.

## ARTICLE VI.

## Seal

The seal of the Corporation shall be in the form of two concentric circles inscribed with the name of the Corporation and the year and State in which it is incorporated. The Secretary or Treasurer, or any Assistant Secretary or Assistant Treasurer, or any other person authorized to do so the Board of Directors, is authorized to attest and to affix to the corporate seal to any document of the Corporation. In lieu of affixing the corporate seal to any document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a corporate seal to affix the word "(SEAL)" adjacent to the signature of the authorized officer or other person.

## ARTICLE VII.

## Stock

Section 1. Issue.

Each stockholder shall be entitled to a certificate or certificates which shall represent and certify the number

and class of shares of stock owned by him in the Corporation. Each certificate shall be signed by the Chairman of the Board, the President or any Vice President, and countersigned by the Secretary or any Assistant Secretary or the Treasurer or any Assistant Treasurer, and may be sealed with the seal of the Corporation. The signatures of the Corporation's officers and its corporate seal appearing on stock certificates may be facsimiles if each such certificate is authenticated by the manual

signature of an officer of a duly authorized transfer agent. Stock certificates shall be in such form not inconsistent with law or with the Charter, as shall be approved by the Board of Directors. In case any officer of the Corporation who has signed any certificate ceases to be an officer of the Corporation, whether by reason of death, resignation or otherwise, before such certificate is issued, then the certificate may nevertheless be issued by the Corporation with the same effect as if the officer had not ceased to be such officer as of the date of such issuance.

Section 2. Transfers.

The Board of Directors shall have power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration of stock certificates. The Board of Directors may appoint one or more transfer agents and/or registrars for its outstanding stock, and their duties may be combined. No transfer of stock shall be recognized or binding upon the Corporation until recorded on the books of the Corporation, or, as the case may be, of its transfer agent and/or of its registrar, upon surrender and cancellation of a certificate or certificates for a like number of shares.

Section 3. Record Dates for Dividends and Stockholders' Meeting.

The Board of Directors may fix a date not exceeding 90 days preceding the date of any meeting of stockholders, any dividend payment date or any date for the allotment of rights, as a record date for the determination of the stockholders entitled to notice of and to vote at such

meeting, or entitled to receive such dividends or rights, as the case may be, and only stockholders of record on such date shall be entitled to notice of and to vote at such meeting or to receive such dividends or rights, as the case may be. In the case of a meeting of stockholders, the record date shall be fixed not less than ten days prior to the date of the meeting.

Section 4. New Certificates.

In case any certificate of stock is lost, stolen, mutilated or destroyed, the Board of Directors may authorize the issue of a new certificate in place thereof upon indemnity to the Corporation against loss and upon such other terms and conditions as it may deem advisable. The Board of Directors may delegate such power to any officer or

officers of the Corporation or to any transfer agent or registrar of the Corporation; but the Board of Directors, such officer or officers or such transfer agent or registrar may, in their discretion, refuse to issue such new certificate save upon the order of some court having jurisdiction in the premises.

## ARTICLE VIII

## Notice

Section 1. Notice to Stockholders.

Whenever by law or these Bylaws notice is required to be given to any stockholder, such notice shall be in writing and may be given to each stockholder by leaving the same with him or at his residence or usual place of business, or by mailing it, postage prepaid, and addressed to him at his address as it appears on the books of the Corporation or its transfer agent. Such leaving or mailing of notice shall be deemed the time of giving such notice.

Section 2. Notice to Directors and Officers.

Whenever by law or these Bylaws notice is required to be given to any director or officer, such notice may be

given in any one of the following ways: by personal notice to such director or officer, by telephone communication with such director or officer personally, by telecopy, telegram, cablegram or radiogram, addressed to such director or officer at his then address or at his address as it appears on the books of the Corporation, or by depositing the same in writing in the post office or in a letter box in a postage paid, sealed wrapper addressed to such director or officer at his address as it appears on the books of the Corporation. The time when such notice shall be consigned to a communication company for delivery shall be deemed to be the time of the giving of such notice, and 48 hours after the time when such notice shall be mailed shall be deemed to be the time of the giving of such notice by mail.

Section 3. Waiver of Notice.

Notice to any stockholder or director of the time, place and/or purpose of any meeting of stockholders or directors required by these Bylaws may be dispensed with if such stockholder shall either attend in person or by proxy, or if such director shall attend in person, or if such

absent stockholder or director shall, in writing filed with the records of the meeting either before or after the holding thereof, waive such notice.

## ARTICLE IX.

### Voting of Stock in Other Corporations

Any stock in other corporations, which may from time to time be held by the Corporation, may be represented and voted at any meeting of stockholders of such other corporations by the President or a Vice-President or by proxy or proxies appointed by the President or a Vice-President, or otherwise pursuant to authorization of the Board of Directors.

## ARTICLE X.

### Indemnification

The Corporation shall indemnify its directors to the fullest extent that indemnification of directors is permitted by the Maryland General Corporation Law. The Corporation shall indemnify its officers to the same extent as its directors and to such further extent as is consistent with law. The Corporation shall indemnify its directors and officers who, while serving as directors or officers of the Corporation, also serve at the request of the Corporation as a director, officer, partner, trustee, employee, agent or fiduciary of another corporation, partnership, joint venture, trust, other enterprise or employee benefit plan to the fullest extent consistent with law. The indemnification and other rights provided by this Section shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Any director or officer seeking indemnification within the scope of this Section shall be entitled to advances from the Corporation for payment of the reasonable expenses incurred by him in connection with the matter as to which he is seeking indemnification in the manner and to the fullest extent permissible under the Maryland General Corporation Law without a preliminary determination of ultimate entitlement to indemnification.

The Board of Directors may make further provision consistent with law for indemnification and advance of

expenses to directors, officers, employees and agents by resolution, agreement or otherwise. The indemnification provided by this Section shall not be deemed exclusive of any other right, with respect to indemnification or otherwise, to which those seeking indemnification may be entitled under any insurance or other agreement or resolution of stockholders or disinterested directors or otherwise.

References in this Section are to the Maryland General Corporation Law as from time to time amended. No amendment of these By-Laws shall affect any right of any person under this Section based on any event, omission or proceeding prior to the amendment.

## ARTICLE XI.

## Amendments

These Bylaws may be added to, altered, amended, repealed or suspended by the Board of Directors.

Exhibit 10(ah)

GENERAL ELECTRIC CAPITAL CORPORATION
3RD FLOOR
501 MERRITT SEVEN
NORWALK, CONNECTICUT 06851

CITICORP USA
6TH FLOOR/ZONE 4
399 PARK AVENUE
NEW YORK, NEW YORK 10043

CONFIDENTIAL

June 9, 1995

Merry-Go-Round Enterprises, Inc.
3300 Fashion Way
Joppa, Maryland 21085

Attention: Mr. Thomas Shull,
Chairman and Chief Executive Officer

Mr. James Kenney
President and Chief Operating Officer

Dear Tom and Jim:

You have advised us that on January 11, 1994 (the ``Petition Date''), Merry-Go-Round Enterprises, Inc., a Maryland corporation (``MGRE''), and several of its subsidiaries filed a petition for relief as debtors-in-possession under chapter 11, title 11 of the United States Code (the ``Bankruptcy Code'') with the United States Bankruptcy Court for the District of Maryland, at Baltimore (the ``Court''), and certain other subsidiaries have since filed petitions (such proceedings, Case Nos. 94-5-0161-SD through 94-5-0163-SD and 94-5-3774-SD et al., are hereinafter referred to as the ``Chapter 11 Case'').

You have requested that General Electric Capital Corporation (``GE Capital'') and Citicorp USA (``CUSA'') consider providing financing for MGRE's plan of reorganization in the Chapter 11 Case to MGRE and certain of its debtor subsidiaries (collectively, ``Borrower'') initially during the pendency of the Chapter 11 Case in the maximum aggregate amount of $90,000,000 (the ``DIP Facility'') in order to (i) fund Borrower's working capital requirements and (ii) provide funds for certain other

payments, all as described below.

Borrower and GE Capital Commercial Finance, Inc. (``CF'') previously entered into a letter agreement, dated March 15, 1995, pursuant to which CF agreed to undertake discussions, analysis and due diligence in order to better evaluate the proposed financing (as supplemented, the ``Letter of Interest'').

Borrower has previously paid fully earned and nonrefundable due diligence fees to each of CF and CUSA in the amount of $100,000 (collectively, the ``Due Diligence Fee''). Borrower has further made due diligence deposits in the amount of $50,000 with CF and in the amount of $25,000 with CUSA (such deposits collectively with all additional due diligence deposits provided for in this letter, the ``Due Diligence Deposit'').

Based on the information you have provided to us and subject to the terms and conditions set forth herein, GE Capital is pleased to commit to provide up to $50,000,000 of the DIP Facility and CUSA is pleased to commit toprovide up to $40,000,000 of the DIP Facility to Borrower. In addition, although this is not a commitment to provide financing for a plan of reorganization (the ``POR Financing''), each of GE Capital and CUSA is pleased to continue its evaluation of the possibility of providing such financing to Borrower.

Each of GE Capital and CUSA reserves the right to arrange for another financial institution or financial institutions (together with GE Capital and CUSA, each a ``Lender'' and collectively, the ``Lenders'') acceptable to GE Capital and CUSA to provide a portion of the DIP Facility and to apportion the total amount of the DIP Facility among the Lenders. The obligations of each of GE Capital and CUSA hereunder are (a) several and neither shall have any liability with respect to the failure of the other to perform its obligations hereunder and (b) contingent upon the performance by the other of its obligations hereunder.

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| Borrower: | Merry-Go-Round Enterprises, Inc. as debtor-in-possession and certain of its debtor subsidiaries to be determined. |
| Co-Agents: | GE Capital and CUSA (collectively referred to as ``Agents''). |
| Lenders: | GE Capital, Citicorp USA and, if syndicated, the other Lenders. |

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| Facility: | A revolving credit facility of up to $90,000,000, with a subfacility of up to $75,000,000 for guarantees of trade letters of credit (the<br><br>``Trade L/C Subfacility'') and a subfacility of up to $15,000,000 for guarantees of standby letters of credit (the ``Standby L/C Subfacility''). Letters of Credit shall be issued by a bank, and on terms, acceptable to Agents, and shall be guaranteed by Lenders. |
| Maturity: | The earliest of: (a) October 15, 1996; (b) the effective date of the plan of reorganization in the Chapter 11 Case; or (c) default and acceleration. |
| Use of Proceeds: | Proceeds would be used for working capital purposes and to fund certain fees and expenses associated with the DIP Facility. |
| Availability: | The sum of (a) aggregate advances outstanding at any given time under the DIP Facility (``Advances'') plus (b) the aggregate face amount of all letters of credit guaranteed under the Standby L/C Subfacility and the Trade L/C Subfacility shall not exceed the lesser of (i) $90,000,000 and (ii) 50% (the ``Advance Percentage'') of Borrower's Eligible Inventory, in each case after deduc tion of such reserves from availability as Agents may deem appropriate from time to time in their discretion, including, without limitation, reserves for payment of profes sional fees and expenses related to the Chapter 11 Case and the Seasonal Reserve set forth below (the ``Available Amount''). Eligible Inventory shall be determined on the basis of such eligibility criteria as Agents may deem appropriate from time to time in their discretion and will be valued on a lower of cost (determined on a first-in, first-out basis) or market basis. Eligible Inventory will include otherwise eligible inventory being purchased pursuant to a trade letter of credit guaranteed under the Trade L/C Subfacility provided that at the time the |

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| | trade letter of credit is drawn upon and thereafter, Borrower will have title to such inventory, Agents will have a valid and perfected security interest in such inventory, and Agents will have received satisfactory evidence that such inventory is in good condition and covered by insurance naming Agents as a loss payee thereunder covering any risk of loss of such inventory. |
| | The Advance Percentage shall be increased from 50% to 55% for the months of September, October and November, 1995; provided that certain conditions to be determined by Agents are satisfied, including, without limitation, an update of Gordon Brothers appraisal of the inventory and an earnings test. The Advance Percentage shall revert back to 50% on December 1, 1995 and remain at 50% thereafter. Commencing December 1, 1995 through February 28, 1996, Agents may, in addition to any other reserves deemed appropriate, take a seasonal reserve of five percent (5%) against the availability of the DIP Facility (the ``Seasonal Reserve''). |
| Mandatory Prepayments: | Advances will be mandatorily prepaid on a daily basis out of available cash pursuant to appropriate lock-box and cash sweep bank account arrangements satisfactory to Agents. For a period of thirty consecutive days in January 1996, no Advances shall be outstanding. |
| Optional Prepayments: | Borrower may prepay outstanding Advances and permanently reduce the commitments under the DIP Facility without penalty from time to time upon three business days' notice to Agents and in mini mum amounts of $5,000,000 and integral multiples of $1,000,000 in excess of that amount; provided that if Borrower desires to reduce the commitments under the DIP Facility to less than $50,000,000, then Borrower must terminate the commitments under the DIP Facility in full. |

Letters of Credit: Lenders will incur letter of credit obligations generally in the form of guarantees of letters of credit issued by CUSA or one or more other banks (the ``Issuing Bank'') acceptable to Agents and on terms satisfactory to Agents for the benefit of Borrower, provided that such letter of credit obligations outstanding at any one time shall not exceed the lesser of (a) the Available Amount and (b) $75,000,000 for trade letters of credit or (c) $15,000,000 for standby letters of credit. While outstanding, letter of credit obligations will reduce availability under the DIP Facility, and any drawing under a letter of credit obligation shall constitute an Advance under the DIP Facility. Borrower shall pay a Trade Letter of Credit Fee equal to two percent (2.0%) per annum (calculated on the basis of a 360-day year

andactual days elapsed) on the face amount of all letters of credit guaranteed under the Trade L/C Subfacility and a Standby Letter of Credit Fee equal to two and one quarter percent (2.25%) per annum (calculated on the basis of a 360-day year and actual days elapsed) on the face amount of all letters of credit guaranteed under the Standby Letter of Credit Subfacility, each payable monthly in arrears, plus any charges assessed by the Issuing Bank.

Interest: Advances shall bear interest at a floating rate equal to the Base Rate plus one and one-half percent (1.5%) per annum. All interest shall be calculated on the basis of a 360-day year and actual days elapsed. Interest shall be payable monthly in arrears and shall be adjusted on each change of the Base Rate. ``Base Rate'' means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank in New York, New York (``Citibank''), from time to time, as Citibank's base rate;

(b) the sum (adjusted to the nearest 1/4 of 1% or, if there is no nearest 1/4 of 1%, to the next higher 1/4 of 1%) of (i) 1/2 of 1% per annum, plus (ii) the rate obtained by dividing (A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average (adjusted to the basis of a year of 360 days) being determined weekly on each Monday (or, if such day is not a business day, on the next succeeding business day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank by (B) a percentage equal to 100% minus the average of the daily percentages specified

during such three-week period by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for Citibank with respect to liabilities consisting of or including (among other liabilities) three-month U.S. dollar non-personal time deposits in the Unites States, plus (iii) the average during such three-week period of the annual assessment rates estimated by Citibank for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of Citibank in the United States; and

(c) 1/2 of one percent per annum above the

Federal Funds Rate.

So long as any default or event of default shall be continuing, the interest rate applicable to Advances and the Trade Letter of Credit Fee and the Standby Letter of Credit Fee shall each be increased by two percent (2.0%) per annum over the rate otherwise applicable and shall be payable on demand.

Agents may charge the DIP Facility for any or all interest and other charges and fees payable by Borrower.

Unused Facility Fee: One-half percent (0.5%) per annum on the average daily unused balance of the DIP Facility (giving effect to outstanding letter of credit obligations), payable monthly in arrears (on the first business day of the following month) and calculated on the basis of a 360-day year and the actual number of days elapsed.

Security: To secure all Advances, outstanding letter of credit obligations and all other obligations of Borrower to Agents and Lenders (collectively, the ``Obligations''), Agents shall receive for the benefit of Lenders through a Court financing order acceptable to Agents, a fully perfected first priority (or second priority in the case of the Distribution Center and Headquarters Facility) security interest in all existing and after acquired real and personal property of Borrower and any guarantors, subject only to valid, enforceable and non-voidable pre-existing liens acceptable to Agents, including, without limitation, all cash, cash equivalents, accounts receivable, inventory (wherever located), equipment, documents, instruments, securities (whether or not marketable), franchise rights, patents, trade names, trademarks, copyrights, general intangibles and contract rights and all substitutions, accessions and proceeds thereof (including insurance proceeds). In addition, Borrower and any guarantors shall

grant a negative pledge with respect to all assets.

All collateral granted to Lenders shall be free and clear of all other liens, claims and encumbrances (except for the existing first mortgages on the Distribution Center and Headquarters Facility). All obligations owing by Borrower to Lenders shall be guaranteed by any and all material direct and indirect subsidiaries of MGRE (other than subsidiaries who are Borrowers) as may be determined by Agents.

All Obligations shall constitute super priority administrative claims as described below under the heading ``Conditions Precedent''. Borrower shall obtain all regulatory and judicial consents and approvals in form and substance satisfactory to Agents for the granting of such security interests and super-priority administrative claim status as Agents may reasonably request.

Agents may, in its discretion and at Borrower's expense, take whatever actions to perfect its security interests that it deems necessary or desirable including, without limitation, filing financing statements or other instruments, and Borrower shall execute any such documents upon Agents' reasonable request.

Representations and Warranties: Those customarily found in Agents' loan agreements for debtor-in-possession financings and others determined by Agents to be appropriate in the context of the proposed transaction.

Affirmative and Financial Covenants: Those affirmative and financial covenants customarily found in Agents' loan agreements for debtor-in-possession financings and other covenants determined by Agents to be appropriate in the context of the proposed transaction which may include, without limitation, minimum EBITDA (FY 96 expected to be $15 million), minimum fixed charge coverage ratio, minimum net

worth, and maximum capital expenditures (to be established on basis of Borrower's Budgeted Plan), covenants with respect to conduct of business and maintenance of existence, payment of obligations, access to books and records (including collateral monitoring ability), notice of certain occurrences, compliance with law, maintenance of insurance, and other affirmative covenants relating to Borrower's and its subsidiaries' business. Financial covenants will be measured on a quarterly basis.

Negative Covenants: Those negative covenants customarily found in Agents' loan agreements for debtor-in-possession financings and other negative covenants determined by Agents to be appropriate in the context of the proposed transaction which may include, without limitation, prohibitions or limitations on indebtedness, liens, advances, guaranties, capital expenditures, issuance of equity, sales of assets, payment of dividends and distributions and repurchases of stock by Borrower and its subsidiaries, payments in respect of pre-petition obligations, executive compensation, mergers, acquisitions, investments, leases and transactions with officers, directors, employees and affiliates, amendments or modifications of material agreements and other negative covenants relating to Borrower's and its subsidiaries' business.

Financial Reporting Requirements: Borrower shall be required to provide Agents with unaudited monthly and quarterly and audited annual financial statements, in form and scope acceptable to Agents. Such statements shall be compared to Borrower's current budget and to the preceding year's comparable period and, in the case of annual and quarterly statements, be accompanied by a satisfactory management letter. Borrower shall provide any additional budgets prepared during the course of the DIP Facility. Borrower shall provide borrowing base certificates and such

collateral reports and verifications and other reports and information as Agents may request, on a frequency to be determined by Agents and in any event upon Agents' request.

Events of Default: Those customarily found in Agents' loan agreements for debtor-in-possession financings and others determined by Agents to be appropriate in the context of the proposed transaction, including, without limitation, (i) failure by Borrower to pay its Obligations as they become due; (ii) failure to comply with the covenants and conditions contained in the definitive loan documentation; (iii) cross-default to breach, termination or expiration of material contracts which have been assumed in the Chapter 11 Case; (iv) the occurrence of any event (including judgments) which would have a material adverse effect on Borrower's and its subsidiaries' business, assets or financial condition or on Borrower's and its subsidiaries' ability to perform their obligations under the definitive documentation; (v) impairment of the collateral securing the Obligations or the rights and remedies under the DIP Facility; (vi) dismissal of the Chapter 11 Case or conversion of the Chapter 11 Case from one under chapter 11 to one under chapter 7 of the Bankruptcy Code; (vii) the granting of relief from the automatic stay in favor of any party other than Agents and Lenders (subject to such exceptions as may be mutually agreed upon by Borrower and Agents); (viii) the assertion or granting of claims under Section 506(c) of the Bankruptcy Code or other actions adverse to Agents and Lenders or their rights and remedies under the definitive documentation or their interests in the collateral; (ix) the appoint ment of a trustee or examiner in the Chapter 11 Case with enlarged powers; (x) the incur rence of an ERISA termination or withdrawal liability in excess of specified amount; (xi) a change in control (to be defined as mutually agreed to by the parties) or (xii) a change in any of the orders approving or affecting the documents relating to the DIP Facility or the rights, remedies and

obligations of Agents or Lenders thereunder without the prior written consent of Agents.

Conditions Precedent to Closing:

Those customarily found in Agents' loan agreements for debtor-in-possession financings and others determined by Agents to be appropriate in the context of the proposed transaction, including, without limitation:

(a) Completion of the due diligence investigation by Agents of the business, affairs, capital structure, material agreements, properties and prospects of Borrower and its subsidiaries including, without limitation, analysis of all material contracts, the Chapter 11 Case and pending and threatened ligation (subject to attorney-client and work product privileges), with results satisfactory to Agents and their counsel.

(b) Borrower shall have obtained a Court order in form and substance satisfactory to Agents and their counsel approving the DIP Facility and Borrower's and its subsidiaries' and Agents' roles and positions in respect thereto. Such order shall include without limitation the following:

(i) a finding by the Court based on the record and the evidence presented that the DIP Facility constitutes a good faith arm's length transaction between Borrower, Agents and Lenders and that the benefits of Section 364(e) of the Bankruptcy Code shall apply to the DIP Facility;

(ii) an order stating that Borrower's obligations under the DIP Facility will constitute administrative expense claims of Borrower with priority over all other such expenses, subject to a carve-out for certain professional fees and

expenses permitted by the Court on a final basis in an amount not to exceed $5,000,000 (determined without regard to fees and expenses awarded or otherwise paid on an interim basis);

(iii) an order granting Agents on behalf of Lenders a validly perfected first priority (or second priority in the case of the Distribution Center and Head quarters Facility) security interest in the assets described under the heading ``Security'' above and approving the DIP Facility and the definitive documentation

relating thereto, and providing that upon the occurrence of an event of default under the definitive documentation, Agents and Lenders are not required to seek relief from the automatic stay or otherwise

obtain Court approval before exercising their remedies and further providing that neither such security interest nor the exercise of any rights or remedies by Agents and Lenders in connection therewith will result in any breach, violation or infringement of (i) any trademark, copyright or other intellectual property right of Borrower or any third party or (ii) any contract to which Borrower or any of its properties is subject. The foregoing notwith standing, Agents shall give Borrower, the official creditors and equity holders committees in the Chapter 11 Case, Bear Stearns & Co., Inc. and Fidelity Management and Research Company three business days' notice of any enforcement action against the collateral;

(iv) an order prohibiting other liens on the collateral

securing the DIP Facility or any other property of the Borrower other than Permitted Liens (as such term will be defined in the definitive documentation in a manner acceptable to Agents);

(v) an order requiring Borrower to pay its obligations under the DIP Facility on maturity or upon acceleration;

(vi) appropriate findings of fact and conclusions of law to the effect that Agents and Lenders shall not be deemed to be in control of Borrower or to be acting as ``responsible persons'', ``owners'' or ``operators'' with respect to the operation or management of Borrower (as such terms, or similar terms, are used in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorizations Act of 1986) and an order that shall, in any event, permit Agents at their option to exclude from their security interest any assets discovered to have a risk

of environmental liabilities which Agents, in their discretion, deems unacceptable;

(vii) a provision that the terms of such order may not be modified and that any such modification would constitute an event of default under the definitive documentation;

(viii) an order providing that Borrower may not assert any claims against Agents, Lenders or the collateral under Section 506(c) of the Bankruptcy Code;

(ix) an order providing that upon an event of default,
(1) Agents may enter upon any leased premises of Borrower and its subsidiaries for the purpose of enforcing the security interests in collateral granted to Agents, and
(2) Agents may cure any defaults and perform such of Borrower's obligations under applicable leases that are required to be performed and, in such event, Agents shall be entitled to all rights and privileges of the lessee under such leases without interference from the lessors thereunder; and

(x) such other terms as Agents may deem necessary or appropriate.

(c) Agents, on behalf of Lenders, shall have received perfected security interests as set forth in ``Security'' above and shall also have received such third party consents or other assurances as may be required by Agents to ensure access to collateral and the ability to exercise rights and remedies in respect thereof. In addition, Agents shall have received evidence satisfactory to them that as of the closing date Borrower's and its subsidiaries' assets are free of all security interests and liens except liens approved in writing by Agents.

(d) Since January 31, 1995, there shall have been no material adverse change in the financial condition, business, operating properties or prospects of Borrower and its subsidiaries,

other than as would normally result from the commencement of the Chapter 11 Case. There shall be (i) no litigation (x) which might have a material adverse effect on the financial condition, business, operating properties or prospects of Borrower and its subsidiaries or (y) which challenges any of the transactions contemplated hereby

and (ii) no information or analyses which result in a material change in Agents' understanding of Borrower and its subsidiaries or the proposed trans action.

(e) Excess availability under the DIP Facility, on a pro forma basis, shall be at least $5,000,000 and Borrower shall have a minimum of $15,000,000 in unencumbered cash and cash equivalents (as defined in a manner acceptable to Agents) on hand as of the closing date.

(f) Receipt of evidence of insurance coverage regarding Borrower and its subsidiaries satisfactory to Agents, with Agents listed as loss payee on all property and casualty insurance and as an additional insured on all liability insurance, with each policy providing for at least 30 days' notice to Agents of cancellation, non-renewal or material change.

(g) Establishment of a cash management system acceptable to Agents.

(h) If requested by Agents, Borrower shall provide an environmental review of owned commercial property of Borrower and its subsidiaries by a firm acceptable to Agents with results satisfactory to Agents.

(i) No default or event of default under any of the definitive documents for the DIP Facility shall exist (or would result therefrom) and the representations and warranties of Borrower contained therein shall be true and correct.

(j) The structure, terms and documentation of the DIP Facility shall be satisfactory to Agents and their counsel.

(k) The replacement of the chief executive officer of MGRE and/or Meridian Ventures contract with MGRE and continued involvement shall be satisfactory to Agents.

(l) Lenders shall have received (i) satisfactory opinions of counsel to Borrower on such matters as Agents may request, including as to enforceability, the perfection of all security interests under the DIP Facility, compliance with, and no conflict under, applicable laws and agreements and (ii) such corporate resolutions, certificates and other documents as Agents shall reasonably request.

(m) All fees due and payable hereunder and under the Fee Letter (as hereinafter defined) and Agents' accrued Transaction Expenses (as hereinafter defined) shall have been paid.

Conditions Precedent to Each Advance: At the time of each Advance, no default or event of default under any of the definitive documents for the DIP Facility shall exist (or would result therefrom) and the representations and warranties of Borrower contained therein shall be true and correct in all material respects.

Assignability: Each Lender will have the right, in its discretion, to sell, transfer, assign, participate or otherwise dispose of, subject to approval of Agents and Borrower (Borrower's approval not to be unreasonably withheld), all or any part of its rights and obligations in respect of the DIP Facility, and its commitment hereunder to one or more eligible assignees (to be defined). Borrower shall assist each Lender in whatever manner reasonably necessary in order to effectuate any such disposition.

Syndication: If requested by Agents, Borrower shall assist Agents in syndicating the DIP Facility Such

assistance shall include, but not be limited to, assistance and preparation of any offering materials, certification as to correctness, completeness and accuracy of all information regarding Borrower and its affiliates included in such offering materials, and participation of relevant management in any meetings with potential lenders.

Expenses: All Transaction Expenses (as hereinafter defined) are to be paid by Borrower whether or not the transaction closes or definitive documentation is entered into.

Governing Law: New York

This letter is delivered to you with the understanding that neither this letter nor its substance shall be disclosed publicly or privately except to those of your counsel, accountants, directors, officers, advisors, employees or agents involved in the proposed transaction. Without limiting the generality of the foregoing, none of such persons shall use or refer to Agents' names in any disclosures made in connection with any of the transactions described above without Agents' prior written consent. Any disclosure of this letter or its contents or of Agents' involvement with Borrower by counsel, officers, employees, agents, affiliates or advisers of Borrower other than as required by law will entitle Agents to keep the Commitment Fee and the Due Diligence Deposit without any further obligation on the part of Agents to Borrower. Agents' consent to the delivery of this letter to the Court, the official creditors and equity holders committees appointed in the Chapter 11 Case, Bear Stearns & Co., Inc., Fidelity Management and Research Company, the Office of the United States Trustee and such other parties upon whom service is required by the Court rules, solely for the purpose of facilitating and obtaining the Letter Approval (as defined below). Each of the Agents has executed a confidentiality agreement in favor of Borrower, which agreements shall survive the execution and delivery of this letter.

Each Agent has made its own independent investigation of the financial condition and affairs of Borrower in connection with making its commitment hereunder and has made and shall continue to make its own appraisal of the creditworthiness of Borrower. Each Agent may share with the other Agent credit and other information about Borrower whether coming into its possession before the date hereof or at any time or times hereafter; provided that neither Agent shall have any duty or responsibility

to provide information to the other Agent and shall have no responsibility or liability with respect to the accuracy or completeness of any information provided to the other Agent.

If the terms of this commitment are acceptable to you, we ask that you return to us an executed copy of this letter and the Fee Letter, dated the date hereof, between Agents and MGRE (the ``Fee Letter'') and, upon the Letter Approval, the non-refundable Commitment Fee referred to in the Fee Letter and an increase to the Due Diligence Deposit in an amount equal to $200,000. You agree to proceed expeditiously to obtain any necessary Court approval to the payment of the Commitment Fee (including approval to effect increases to the Due Diligence Deposit from time to time without further Court order) and the incurrence of the indemnity and reimbursement

obligations hereunder and any other financial obligations hereunder requiring Court approval as soon as possible (the ``Letter Approval'').

The Due Diligence Deposit will be applied towards the Transaction Expenses. If at any time (and from time to time) the Due Diligence Deposit does not exceed accrued Transaction Expenses at such time by at least $25,000, Borrower shall, at Agents' request, deposit with CUSA an amount requested by Agents (which in any event, shall not be less than $25,000) necessary to cause the Due Diligence Deposit to exceed accrued Transaction Expenses by at least $25,000 at all times. The Due Diligence Deposit will be applied against Transaction Expenses. Upon closing of the DIP Facility, any excess of the Due Diligence Deposit over Transaction Expenses shall be applied against the Closing Fee referred to in the Fee Letter. If the DIP Facility does not close, any excess of the Due Diligence Deposit over Transaction Expenses shall be refunded to Borrower.

Agents' offers of the commitments hereunder shall expire at the close of business on (a) June 12, 1995 unless on or prior to such date, you accept this letter by returning a fully executed copy of this letter and the Fee Letter (without change, reservation or condition) to Agents and (b) June 15, 1995 unless on or before that date you shall have obtained the Letter Approval, pursuant to a Court order acceptable to Agents, and paid the Commitment Fee and the increase to the Due Diligence Deposit described above. Subject to the foregoing, Agents' commitments set forth herein shall expire at 11:59 P.M. on July 13, 1995, unless all of the transactions contemplated hereby shall have theretofore been consummated; provided that Borrower will use its best efforts to get all necessary approvals to consummate the transactions contemplated hereby on or before July 7, 1995. Notwithstanding the expiration of Agents' commitments hereunder, the obligations set forth herein of

Borrower with respect to the payment of fees and expenses, confidentiality and indemnification shall survive such expiration.

Borrower agrees to indemnify and hold harmless Agents and their respective affiliates and their respective officers, directors, employees, attorneys and agents, and all persons controlling any of them or any of their affiliates within the meaning of the Securities Act of 1933 or the Securities Exchange Act of 1934 (all such person being hereinafter referred to as ``Indemnified Persons''), whether or not definitive documentation is executed or Advances or other extensions of credit under the DIP Facility are actually made, from and against all claims, losses, damages, liabilities or expenses of any kind or nature whatsoever (each, a ``Claim'') that may be incurred by or asserted against or involve any Indemnified Person in any and all actions, suits, proceedings (including any investigations or inquiries) or Claims with respect to this letter, the Letter of Interest, the Fee Letter, the DIP Facility, the Chapter 11 Case or any of the other transactions contemplated hereby (whether or not consummated), and the preparation, execution and delivery of this letter and the definitive documentation; and, upon demand by Agents, to pay or reimburse any such Indemnified Person for any reasonable legal or other expenses incurred in connection with investigating, defending (or preparing to defend) or participating in any such action, suit, proceeding (including any inquiry or investigation) or Claim, whether commenced or threatened, it being understood that each

Indemnified Person shall have the right to select its own counsel in connection with such matters; provided, that Borrower shall not be responsible to any such Indemnified Person to the extent that any such losses, damages, liabilities or expenses result solely from such Indemnified Person's gross negligence or willful misconduct. The indemnification provisions set forth herein shall apply whether or not any Indemnified Person is a party to any such action, suit, proceeding or Claim, and are expressly intended to cover, but not be limited to, reimbursement of legal and other expenses, including expenses incurred in depositions or other discovery proceedings. The indemnity obligations of Borrower hereunder shall be in addition to, and not in limitation of, any other liability or obligation that Borrower or any other person or entity may have to any Indemnified Person, at common law or otherwise, including but not limited to any obligation of contribution. None of CF, Agents or any other Indemnified Person shall be responsible or liable to any other party hereto or any other person or entity for consequential, indirect, punitive or exemplary damages which may be alleged as a result of this letter, the DIP Facility or the transactions contemplated hereby.

The costs and expenses (collectively, the ``Transaction

Expenses'') of Agents and their affiliates and agents (including, without limitation, the reasonable fees and expenses of O'Melveny & Myers, special counsel to Agents, or any other counsel retained by Agents, and of any auditors, appraisers, record search firms, environmental consultants, management consultants or other professionals deemed necessary or advisable by Agents or their counsel) incurred in connection with the preparation, execution and delivery of this letter, the Letter of Interest, the Fee Letter and the financing documentation, the evaluation of the transaction and the collateral, and the consummation of the transactions contemplated hereby and thereby, shall be paid by Borrower, whether or not any financing is made available by Agents and whether or not definitive documentation is entered into.

This letter: (a) may be executed in counterparts, each of which shall be deemed an original and all of which counterparts shall constitute one and the same document, (b) shall be governed by the internal law of the State of New York applicable to contracts made and to be performed within that state; (c) supersedes any and all discussions, written or oral, between Agents and their affiliates and Borrower and its affiliates (including, without limitation, the Letter of Interest (other than the expense and indemnification provisions thereof); and (d) may not be contradicted by evidence of any actual or alleged prior, contemporaneous or subsequent understandings or agreements of the parties, written or oral, express or implied, other than a writing signed by Agents which expressly amends or supersedes this letter. There are no unwritten understandings or agreements between the parties. The terms of this commitment may not be changed except pursuant to a writing signed by Agents and Borrower. This letter is solely for the benefit of Agents and the Borrower, and there shall be no third party beneficiaries hereof other than the Indemnified Persons. THE PARTIES HAVING DETERMINED IT TO BE IN THEIR BEST INTERESTS TO SECURE FOR THEM SELVES THE ADVANTAGES OF THE BEST ASPECTS OF EACH OF ARBITRATION AND THE JUDICIAL SYSTEM BY PRESERVING FOR THEMSELVES THE RIGHT TO TRIAL

BY JUDGE ALONE, EACH PARTY HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS LETTER, ANY TRANSACTION RELATING HERETO, OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

[Remainder of this page intentionally left blank]

We look forward to working with you to bring the proposed transaction to completion.

Very truly yours,

GENERAL ELECTRIC CAPITAL CORPORATION

By:
Charles Chiodo
Duly Authorized Signatory
Attorney-in-Fact

CITICORP USA

By:
Robert Kosian

ACCEPTED THIS ___ DAY
OF JUNE, 1995

MERRY-GO-ROUND ENTERPRISES, INC.

By:
Name:
Title:

<TABLE> <S> <C>

<ARTICLE> 5
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The schedule contains summary financial information extracted from Merry-Go-Round Enterprises, Inc. unaudited financial statements for the three months ended April 29, 1995, and is qualified in its entirety by reference to such financial statements and the notes thereto.
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