


COLECO

About Coleco

Coleco Industries, Inc. is a major manufacturer of entertainment and recreation products. It is the maker of *ColecoVision*, the state of the art, expandable video game/home computer system; a manufacturer of video game hardware and software for systems other than *ColecoVision*; and the world's largest maker of portable electronic games. Coleco is also the leading manufacturer of a broad variety of ride-on vehicles for children and the world's largest manufacturer of above ground swimming and wading pools. The Company manufactures a line of basic toys and games, including the *Cabbage Patch Kids*, a new line of adoptable "little people." Manufacturing and distribution facilities in the United States and Canada total nearly 2.8 million square feet, and peak employment last year reached approximately 4,800 people. With the home increasingly becoming a center for computerized entertainment, recreation and information, Coleco believes it is well positioned in the marketplace to pursue exciting opportunities for continued growth.

Contents

Financial Highlights	1
Management Report	2
The Licensing Strategy	6
Toys and Games	8
Ride-On Vehicles	10
Pools and Outdoor Products	12
ColecoVision	14
Video Products for Other Systems	16
Portable Electronic Games	18
Financial Review Contents	20
Facilities	35
Directors, Officers	36
Operating Executives	37

Financial Highlights

	1982	1981
	<i>(Amounts in thousands, except per share data)</i>	
Net Sales	\$510,380	\$178,031
Earnings Before Income Taxes	\$ 85,447	\$ 13,464
Net Earnings	\$ 44,896	\$ 7,711
Net Earnings Per Share	\$ 2.90	\$.51
Average Number of Shares Outstanding	15,470	15,264
Working Capital	\$129,607	\$ 41,164
Current Ratio	2.1 to 1	2.2 to 1
Long-Term Debt	\$ 68,829	\$ 17,075
Stockholders' Equity	\$ 92,653	\$ 47,467

New York Stock Exchange Information Market Price of Common Stock:

	1982		1981	
	Market Price		Market Price	
	High	Low	High	Low
1st Quarter	7³/₈	3⁵/₈	5 ¹ / ₄	3 ³ / ₈
2nd Quarter	9¹/₈	6⁵/₈	6 ³ / ₄	5
3rd Quarter	9³/₄	6³/₄	5 ⁷ / ₈	3 ³ / ₄
4th Quarter	25³/₈	8⁷/₈	4	3 ¹ / ₈

Restated for the two for one common stock split, effected in the form of a 100% stock dividend, distributed on January 28, 1983 to shareholders of record on December 31, 1982.



Leonard E. Greenberg
Chairman

Arnold C. Greenberg
President and Chief Executive Officer

We are pleased to report that 1982, our fiftieth anniversary, was by far the best year in our history. Coleco achieved record sales and earnings and substantially strengthened its financial condition. We became the third largest toy company in the world and believe we were the most profitable in the entire industry.

Sales for the year were \$510 million, nearly three times the 1981 level of \$178 million, and earnings of \$44.9 million were nearly six times the \$7.7 million for 1981. Earnings per share rose to \$2.90 compared with \$.51 per share in 1981, adjusted for the two for one stock split in January 1983.

Stockholders' equity nearly doubled to \$92.7 million, and return on average equity for the year was 71%. Working capital totaled \$130 million at year end, increased in part by the proceeds of a public offering of \$60.5 million of 20 year subordinated debentures. We have recently reached agreement in principle with our banking group for a \$170 million revolving credit facility which will provide adequate financial resources with which to achieve our 1983 operating objectives.

Important new electronic product introductions were the key to Coleco's 1982 success. Foremost among these is *ColecoVision*, a state of the art, expandable video game system which received widespread acceptance as the number one system in the marketplace. We manufactured and shipped 560,000 units in the North American market last year and nearly the same amount in the first quarter of 1983 alone.

During 1982 we were the only company to produce home video game software for the three major video game systems: Atari's *2600 VCS*, Mattel's *Intellivision* and our own *ColecoVision*. The company's cartridges featured games based on popular, licensed, coin-operated arcade favorites, including *Donkey Kong*. In the aggregate, Coleco shipped more than

eight million cartridges for the three systems in 1982 and is now one of the largest manufacturers of home video game software.

Coleco strengthened its position as the largest producer of portable electronic games with the successful introduction of four technologically advanced table top games based on licensed arcade hits. We shipped three million units of the *Pac-Man*, *Donkey Kong*, *Frogger* and *Galaxian* arcade games in 1982 and recorded our biggest year in portable electronic games since entering the field in 1978.

Merchandising

The successful introduction of important new electronic products which accounted for the largest part of Coleco's sales and earnings in 1982 was due to the effective application of Coleco's distinctive merchandising strategy. Applied successfully and refined over a period of years, Coleco's merchandising strategy encompasses four basic elements:

- Understanding what the consumer really wants and responding appropriately to his desires.
- Selectively acquiring and creatively applying popular licenses.
- Making intensive use of advertising to communicate the message in an unusually effective and memorable way.
- Employing mass market distribution techniques to make the product quickly available to the consumer on an affordable basis.

Coleco is a marketing driven company with an excellent track record for determining what it is the consumer really wants. Before the designers and engineers take over, much senior management attention is focused on this critical starting point. As a result, technology is never marketed as an end in itself, but is creatively applied to offer the consumer both the best product and the best value. The successful introduction of *ColecoVision* involved a perceptive understanding of what the consumer wanted in an advanced video game system and is a good example of the application of Coleco's distinctive merchandising strategy.

Our market research identified the features that were most important to the consumer—high resolution graphics, responsive controllers, licensed arcade game software and expandability to accommodate a home computer module and new technological developments. Most of these features were not being offered by Coleco's competitors. Coleco's product development team responded to the consumer's needs by applying state of the art technology to develop a superior system with the features that the consumer wanted.

Coleco has long possessed the ability to turn out on short notice high volume, quality product in our own well-equipped facilities in the United States, as well as in contract facilities in the Orient. As an example of that capability, last year Coleco produced 560,000 units of *ColecoVision* in the last half of 1982, more than 8 million video game cartridges in the same period, and 3 million portable table top electronic games throughout the year.

Recognizing the positive identification the consumer had with well-known, coin-operated arcade games, Coleco negotiated licensing agreements for popular games like *Donkey Kong*, *Zaxxon* and *Turbo* to enhance the software experience. Coleco's licensing strategy is more fully explored in the next section of this Annual Report beginning on Page 6.

Commercials for *ColecoVision* were created to closely identify the excitement of the arcade with the product and the targeted *ColecoVision* buyer. Rather than compare *ColecoVision* to the inferior game systems of our competitors, our intensive television campaign compared it to the arcade experience itself. A well coordinated advertising and promotion campaign selectively pinpointed the delivery of that message to markets throughout North America.

Coleco has developed strong relationships over many years with mass merchants who are effective retailers of high

volume, television promoted products of the kind manufactured by Coleco. They have come to value the completeness, simplicity and effectiveness of Coleco's merchandising strength and provide us with rapid nationwide distribution of our products at affordable prices.

Prospects for 1983

The non-electronic portion of Coleco's business enjoyed a 15% sales increase in 1982, and we expect another record sales year in 1983. We introduced more new products for these categories in 1983 than ever before in our history and have received very favorable reaction at the recently completed U.S. and Canadian trade shows. The continuing application of Coleco's distinctive merchandising strategy underlies our confidence in further growth in this area.

In our ride-on vehicles category, we have introduced nine major new items featuring new licenses like *Ms. Pac-Man*, *E.T.*, *Knight Rider* and *Stomper*. Additional models of riders and battery operated vehicles have further expanded the age appeal for these products. As a result of this product line expansion, we expect another record sales year in this category.

In our swimming pools and outdoor products group, we have introduced a line of outdoor furniture for children—a playhouse, a picnic table and a slide—each bearing the *Smurf* license. We have also extended the character licensing application of *Smurf* and *E.T.* in a new line of inflatable swimming pools, wading pools and accessory items.

Our basic toy and game line was substantially strengthened with the introduction of a line of licensed *Colorforms* products and the *Cabbage Patch Kids*, Coleco's entry into the doll category. The *Cabbage Patch Kids* are a line of one-of-a-kind "little people" with special names, personality profiles and adoption papers. Under an exclusive license with Xavier Roberts, who developed the concept in 1977, Co-

leco will bring the *Cabbage Patch Kids* to mass consumer markets at a price range of \$20-25.

By far the most exciting growth opportunity for 1983 lies in the area of video game hardware and software.

At Toy Fair this year, we introduced the *Gemini* Video Game System, a low-priced unit that plays all *Atari 2600 VCS* compatible cartridges. In addition, we introduced the *Sound I* Voice Module, a patented sound system as an accessory for the *Atari 2600 VCS*, the *Gemini* Video Game System and Expansion Module #1 for the *ColecoVision* system.

Last year we shipped approximately six million video game cartridges for the Atari and Mattel systems combined. We believe that this year, more than ever before, licensed titles will be extraordinarily important due to the oversupply of early generation software for the Atari system in particular. Coleco will have very strong titles again this year, led by *Donkey Kong Junior*, *Zaxxon*, *Smurf*, *Turbo*, *Time Pilot* and *Rocky*. We are convinced that we are approaching the software opportunity in the right way and expect to increase unit sales in 1983 during this transitional, shake out phase of the business.

By the end of 1982, *ColecoVision* had received widespread recognition as the number one video game system in the marketplace. Our 1983 software strategy will expand the 9 video game cartridges introduced last year to a total of approximately 35 titles by the end of this year. Popular, licensed, coin-operated arcade game titles will continue to represent a major thrust of that software strategy.

We will also strengthen the sensory and interactive experience made available by two new controller systems, the *Super Action* Controller designed for a line of sports game cartridges, and the advanced *Roller Controller* system featuring a 360 degree full field action track ball.

Our *ColecoVision* strategy for 1983 also provides the consumer with the ability to play computer grade home entertainment software without purchasing a keyboard

or computer module. The recently introduced *Super Game* Module with memory wafers offers substantially more memory capacity than any home video game cartridge available in the market today.

While these introductions will maintain *ColecoVision* as the most desired video game system in the market, the opportunity created by its expandability doesn't stop there. In June, we will introduce a competitively priced home computer module which will address in a unique way the three primary uses for the home computer—entertainment, information management and education. The system will have a variety of software including language and other program options necessary to make the system complete. The *ColecoVision* system will do more and represent a far better value than competitive products. As a result, we believe *ColecoVision* will have as much positive impact in the home computer field as it has already had in the video game field.

Management

Our continuing growth has required us to strengthen and broaden our management structure. Besides adding experienced managers to our ranks from outside the company, we have also promoted capable senior executives and granted them appropriate incentives in order to help maintain what has consistently been a very high degree of senior management continuity at Coleco. Even as our management structure evolves in response to the challenge of rapid growth, we are deeply committed to retaining those important elements of our proprietary and entrepreneurial heritage that have formed and maintained our intensive, hands on and responsive management style.

Mark L. Yoseloff has been promoted to Executive Vice President, with substantially broadened general management responsibilities as well as functional responsibility for product operations,

management information systems, and operations planning and control. Mark joined Coleco in 1977 and has made a major contribution to Coleco's success. He is a welcome addition to the highest level of Coleco's management.

Philip Cohen has been promoted to Executive Vice President—Sales with increased responsibilities for all Coleco's product lines. Phil joined Coleco in 1971 with broad industry experience which has enabled him to exercise an important leadership role and develop an effective sales organization.

Eric D. Bromley has been promoted to Senior Vice President—Advanced Research and Development. Since joining Coleco in 1976, Eric has had major responsibility for the successful development of appropriate hardware technology and game software for the rapidly growing consumer electronic marketplace.

Alfred R. Kahn has been promoted to the position of Senior Vice President—Marketing. Al joined Coleco in 1977 and has had major responsibility for the creation and application of Coleco's successful merchandising and licensing strategies. In his new role, Al will have broadened marketing responsibility for all Coleco's product lines.

Paul C. Meyer has been promoted to Senior Vice President—Operations Planning and Control. Since joining Coleco in 1974, Paul has distinguished himself in a variety of management positions in both the financial and operational control areas. Paul's background is well suited for his broadened management responsibility.

George V. Goudreault has recently joined Coleco as Executive Vice President—Operations. Coming to Coleco from the Parker Hannifin Corporation where he was the senior executive in charge of worldwide manufacturing activities, George is responsible for Coleco's manufacturing operations.

Coleco's outstanding 1982 success was in large part the result of an extraordinary commitment by the entire management team. The Coleco team performed at its best in every sense of the word. We acknowledge with profound thanks and appreciation their personal sacrifice, professionalism and dedication to success.

Opportunities for the Future

We see the present sizable domestic and international market for home video games evolving into an even larger and more broadly based market for computerized entertainment, information management and education. The greatest single opportunity for growth in the 80s is in the more focused area of computerized entertainment. Accordingly, Coleco's business opportunity should not be thought of merely in terms of manufacturing hardware like video games and home computers, but rather in terms of developing increasingly sophisticated, interactive and appealing entertainment software, delivered to the home by state of the art hardware systems. This entertainment software is now making use of the power of the home computer as well as other creative applications of emerging technology. The expandable *ColecoVision* system, which can accommodate advances in technology to reflect these opportunities, is already featuring vastly more realistic and sophisticated entertainment software than competitive systems.

In the next few years, the use of the audio disk, video disk and real time techniques will further enhance the appeal of computerized entertainment software. These and other new developments are already being designed into the advanced *ColecoVision* systems of the future—a future that will be here very soon. Coleco is committed to unlocking the power of the home computer to make the software experience more captivating.

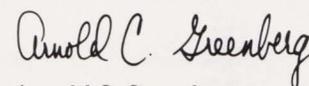
Another Coleco advantage in this area is the ability to apply our knowledge of toys and games and play and learn experience to the home computer field in order to lower the age of computer literacy for children. The use of *Smurf*, *Berenstain Bears* and our recently acquired *Dr. Seuss*

license will enable us to have significant impact in attracting young people to the home computer market.

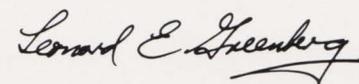
Our growth in the 80s will also come from significant geographic expansion. Our Canadian company should become the largest toy company in Canada this year. Through our licensing agreement with CBS, Inc., *ColecoVision* was introduced with great success to the European market earlier this year. We will begin to make shipments under this agreement during the second quarter. With 160 million television households in the world outside of North America, and with Coleco entering the race almost in a position of equality with Atari and Mattel, we foresee very exciting prospects for the 80s.

Although our commitment to growth in the non-electronic part of our business will continue, the most significant source of growth will continue to be our electronic business. The consistent application of Coleco's distinctive merchandising strategy and intense commitment to success encouraged by our management culture should support above average growth through the 80s.

We have already forecasted sales volume in excess of \$800 million for 1983 and have recently released first quarter sales and earnings results which were more than three times those for the year ago first quarter. We believe that 1983 will continue to be a year of significant progress and one in which Coleco will strengthen its position as a worldwide leader in entertainment and recreation products.



Arnold C. Greenberg
President
Chief Executive Officer



Leonard E. Greenberg
Chairman

April 8, 1983

The Licensing Strategy

Coleco's licensing strategy is an important part of the Company's overall merchandising strategy. The aggressive use of readily identifiable licenses applied to products capable of achieving mass market consumer acceptance has been a very significant factor in the Company's growth. We have been able to successfully extend a single licensing concept across a range of products in different categories, thereby building upon the success of one product to help support others. Perhaps the most easily recognizable example of this concept is Coleco's use of the *Smurf* license.

In 1982 Coleco marketed ride-on products such as the *Smurfs-A-Poppin Train*, *Smurf Mobile* and *Smurf Power Cycle*. Four products in our carriage line and one of the most successful cartridges for the *ColecoVision* home video game system were also created from the basic *Smurf* concept.

Coleco has expanded its use of the *Smurf* license in 1983. In our pools and outdoor products category, we have introduced a playhouse, picnic table and slide featuring the adorable blue *Smurf*. We put *Smurf* in the water with a line of wading pools and inflatables, and then spanned the seasons to put him on a snow coaster. We have also introduced a *Smurf* video game cartridge for the Atari and Mattel systems and have added another *Smurf* title for the *ColecoVision* system.

We are convinced that for a licensed concept to achieve a significant measure of success, it must be applied to quality products with inherent appeal, and creatively applied in a manner that integrates the license into the product, resulting in added value to the consumer. Finally, effective advertising and promotion is required.

Licenses have played a very important role in the success of Coleco's home video game software. Most Coleco cartridges have had their genesis in the coin-operated arcades, and Coleco has been able to identify successfully future

Smurf Rescue cartridge for *ColecoVision*



Smurf Snow Coaster



arcade winners before they have achieved their market popularity. Coleco's titles include many of the most popular arcade games such as *Donkey Kong*, *Zaxxon*, *Turbo*, *Looping*, *Donkey Kong Junior*, *Pepper II*, *Buck Rogers Planet of Zoom* and *Sub Roc*.

Coleco has taken the *Cabbage Patch Kids*, a successful concept developed in the adult market, to provide a foundation for a toy industry license. The *Cabbage Patch Kids* were developed by Xavier Roberts in 1977 at the Babyland General Hospital in Cleveland, Georgia. They were based on a group of soft sculpture dolls offered to the public at an "adoption fee" of \$125 and up. Faithful to the spirit and fantasy surrounding the originals, Coleco has developed a line of dolls and accessories retailing for less than \$25. Having already licensed other manufacturers outside of the industry to produce *Cabbage Patch Kids* items, we have become both licensor and licensee.

Looking toward the future, Coleco recently entered into an agreement with Dr. Theodor S. Geisel, the creator of the *Dr. Seuss* characters, whose books have sold 90 million copies throughout the world. This license gives us the worldwide rights to the exclusive use of the many whimsical characters he has created. We expect to introduce computer software, electronic and video games, as well as more traditional toy and game products featuring characters like the *Cat in the Hat*, the *Grinch* or *Horton*.

Over the years we have been able to identify early the very best in new licenses, acquire them and creatively fashion items around them in several product categories—both electronic and non-electronic. We will continue to use our licensing strategy to lead us successfully into new product categories.

Smurf Piggyback Stroller



Smurf Indoor/Outdoor Slide



Smurf Mobile Pedal Car



Coleco's Cabbage Patch Kids represent a major marketing campaign to secure a significant position in the doll category in 1983. The Company is offering to the mass consumer market a unique soft sculpture doll concept with a complete line of accessories to make the play value more exciting.





Traditional toys and games have comprised a variety of products—sports action games such as pool tables, rod hockey games and *Power Jet* hockey tables; doll carriages and strollers; snow products and children's electric bake ovens.

Recognizing that non-electronic products represent a continuing important element of Coleco's business, we introduced two major new product lines in 1983 that reflect the creative application of our licensing strategy:

The *Cabbage Patch Kids*—a line of 16" soft sculptured, one-of-a-kind dolls based on the highly successful marketing concept developed by Xavier Roberts at Babyland General Hospital in Cleveland, Georgia in 1977. Exhibiting unique features that individualize them—making them one-of-a-kind—these kids, are not sold, but are "adopted." Coleco has become the co-developer and licensor of the *Cabbage Patch Kids*.

Coleco will manufacture and mass market its own line of *Cabbage Patch Kids*. True to the originals, they too will be one-of-a-kind dolls. They will feature different hair styles and coloring, eye coloring, skin tone, freckles, dimples and will come dressed in a diaper and high quality outfit. Each of Coleco's kids will come with a birth certificate, adoption papers, name and personality traits, and will retail for less than \$25.

Coleco has also introduced a line of *Cabbage Patch Kids* accessories which includes an Umbrella Stroller, *Snuggle-Close Carrier*, Rocker/Carrier and Slumber Bag. In addition, a line of kids' fashions has been designed and introduced.

Of special significance is Coleco's licensing the *Cabbage Patch Kids* brand to a number of major companies outside of the toy industry, including Riegel Textile (children's clothing), Elkay Industries (sportswear and playwear), Random

House (juvenile books), and King-Seely Thermos (lunch kits).

A multi-million dollar, multi-media advertising campaign will introduce the *Cabbage Patch Kids* to millions of homes across the nation.

Another 1983 new product introduction is a line of *Colorforms* play and activity sets. *Colorforms*—plastic stick on and peel off pieces—have provided creative play for millions of children for over 40 years and is one of the most successful brand names in the toy industry.

Eyeing new marketing opportunities, Coleco has taken the enduring *Colorforms* license and expanded it by developing pre-school play sets and activity kits that maximize the play value of *Colorforms*.

The basic products include *Colorforms Kid*, a character creating set using a molded plastic body as a base; *Colorforms Design Kit*, a multi-activity design kit; *Colorforms 3-In-1 Activity Desk*, a portable desk featuring a chalkboard lid that opens to an easel; and the *Colorforms 3-In-1 Easel*, a floor standing easel with a reversible board.

We are focusing increased attention on the non-electronic part of our business and are likely to increase the flow of major new product additions in the years ahead.

The Colorforms Kid brings the magic of Colorforms into a 3-dimensional play environment.



Quality construction, a broad range of sizes and styles, and the most popular character licenses combine to make Coleco's ride-on vehicles appealing to children of all ages.



Ride-On Vehicles



Coleco again generated great sales growth in the ride-on vehicle category in 1982. Sales increased by more than 70%, clearly positioning the company as the industry leader. We entered this market in 1980 with two models and achieved sales of \$1.9 million. In each succeeding year, the line has been expanded to include more sizes and styles.

Riders—designed for 1 to 3 year olds—the littlest of tykes—who sit on the seat and push with their feet.

Pedal Motorcycles—three wheeled ride-ons that feature a realistic looking motorcycle windshield, fairing and handlebars for the 2 to 5 year olds.

Power Cycles—three wheeled plastic trikes with 9", 13" and 16" front wheels for kids from 3 to 8 years old.

Pedal Cars—fully steerable four wheeled cars with adjustable pedal shafts for children in the 2 to 7 year age category.

Battery Operated Vehicles—adding the action of a real motor and electronic sounds, these rear wheel powered vehicles are the top of the line for use by children from 3 to 7 years of age.

Coleco's unusual success in this category is largely due to the creative application of the most popular character licenses to a high quality product line. The application is not merely putting a label on a piece of plastic, but, as the products in the photograph illustrate, designing the vehicles as an extension of the license. For example, *E.T.* is shown in the basket of the vehicle, just like the movie.

In 1982 the major licenses were used on more than one product. The very popular *Smurf* license was used on the *Super Smurf Piggy Back Rider*, the *Smurfs-A-Pop-pin Train*, the *Smurf Mobile Pedal Car* and the *Smurf Power Cycle*. All of these vehicles feature the lovable blue character who has charmed children throughout the world.

Coleco has further expanded the ride-on vehicle line in 1983 with nine new items which combine unusual features and highly recognized, popular, licensed characters:

Ms. Pac-Man Power Cycle features the leading lady of the arcades, with the front wheel triangular cut-out making it appear as if the wheel is gobbling dots as the child pedals.

The *Knight Rider Power Cycle* has unique styling with its Trans Am front hood and simulated dash controls.

The *Stomper 4X4* is a life-size version of the Schaper miniature *Stomper* cars. This oversized pedal car features two front floating suspension wheels that absorb bumps while a fifth center wheel is provided for fast pedal action and steerability.

The *G.I. Joe Armored Recon Patrol Vehicle* is a feature packed addition to our battery powered line. Combining electronic sounds and lights with levers which control movements in all directions, this is the top of Coleco's 1983 line.

Television advertising support for the ride-on vehicle line will be increased in 1983. Early trade reaction to the line has been very positive, and we believe that the key combination of variety of styles and sizes, quality construction, aggressive licensing and increased advertising will continue to make Coleco's ride-on vehicle line the most successful in the industry.

One of Coleco's most successful ride-on vehicles—the *Smurf Power Cycle*—featuring the adorable *Smurf* face molded on the handlebars.



Coleco's family pools are available in many shapes and sizes to provide vacation fun right in the backyard. A new line of inflatable accessories featuring popular licensed characters provides additional play and enjoyment.



Pools and Outdoor Products



Coleco continues to maintain its strong position as the world's largest manufacturer of above ground swimming and wading pools and the industry leader in licensing and merchandising techniques. Included in this group of products are:

Wading and splasher pools.

Water toys, inflatables and backyard play items.

A variety of family swimming pools in sizes from 15' round pools to 41' oval pools.

Pool filters and related accessories such as ladders, decks and fencing.

Swimming pool chemicals.

Promotionally priced products like polyethylene wading pools, splasher pools, water toys, inflatables and backyard play items are marketed through extensive use of character licenses including our own *Mr. Turtle*, *Smurf*, *Dukes of Hazzard*, *Strawberry Shortcake* and others. In 1983 we will add *Pac-Man*, *E.T.*, and *Donkey Kong* licenses to promote new products.

Mr. Turtle, a character Coleco introduced in 1977 with the *Mr. Turtle Slide 'N Splash* pool, has been continuously successful. For 1983 Coleco introduced the *Mr. Turtle* Rotating Sprinkler. Quality constructed of durable ABS plastic, it features *Mr. Turtle* snapping water from its mouth.

Coleco has introduced a line of inflatable water accessories for 1983. Taking advantage of a weakened competitive structure, somewhat analogous to our entry into the ride-on vehicle market in 1980, Coleco is featuring products with two of the most popular character licenses—*Smurf* and *E.T.*

Smurf characters will highlight a swim ring, fun float, water pal, head ring and see-through float. *E.T.* will be featured on a head ring, fun float and beach ball.

The *E.T.* Pal, a three-dimensional inflatable playmate with a sand weighted bottom, was introduced last fall. As a result of its success, *Pac-Man* and *Donkey Kong* versions are being introduced for 1983.

Following the successful 1982 introduction of the *Smurf* Indoor/Outdoor Play

Table, the company has expanded this all year round line to include:

The *Smurf* Mushroom Playhouse, featuring several windows, a large doorway and *Smurf* characters decorating the walls. Lightweight polyethylene construction makes it useable all year round, indoors and out.

The *Smurf* Indoor/Outdoor Slide, featuring a two piece slide, sturdy ladder and the *Smurf* face decorating the handles.

To satisfy the need for swimming fun by apartment and condominium dwellers, the Patio Pool has been introduced. It features polyester reinforced vinyl sidewalls and a drain plug. Easy to assemble and disassemble, it comes in two sizes.

We have introduced the new *Summer Saver* Pool Package in 12' and 15' sizes. With everything needed to have a vacation in your own backyard, including Blue Plank steel wall pool, ladder, *Mr. Turtle* chlorine dispenser, a cartridge filter and a free summer supply of *Tarry* tablets from our Coastal chemical subsidiary, it all fits into one popularly priced package.

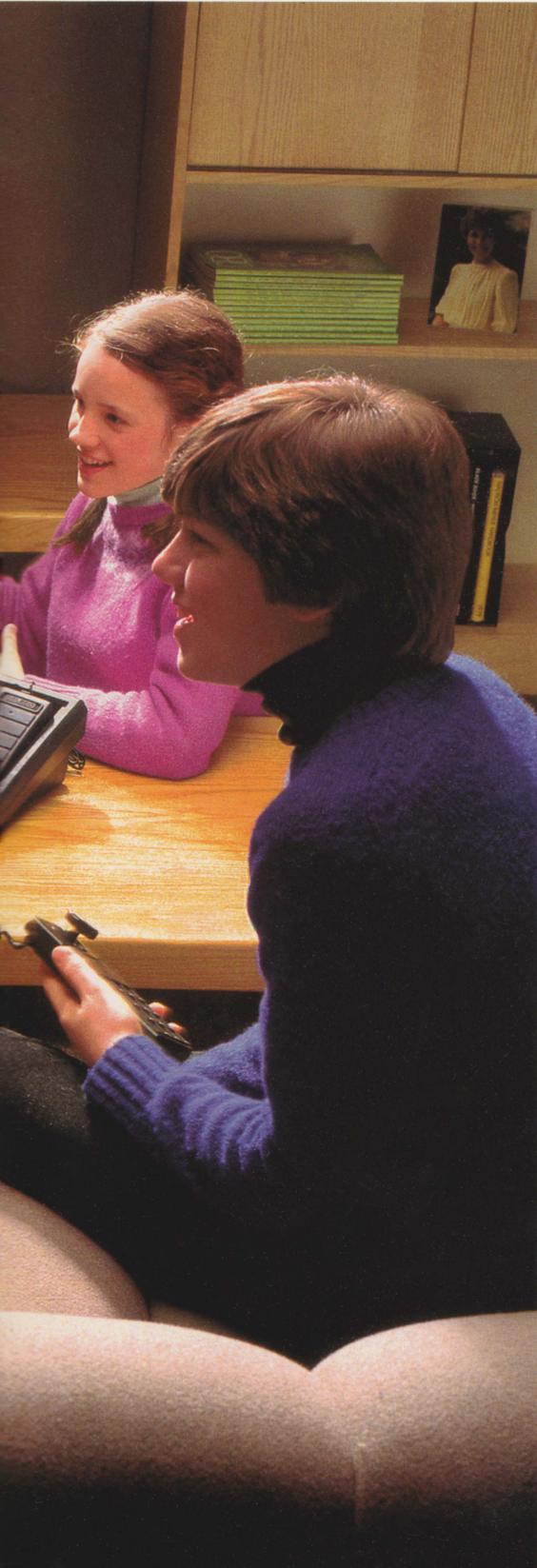
With expanded TV coverage, we expect to increase market share and penetration in these new categories. New TV commercials for 1983 will feature the *Summer Saver* Pool Package, *Mr. Turtle* Rotating Sprinkler and *Smurf* backyard items. National and local spot television will reach over 40 major markets.

Mr. Turtle—the most popular children's summer character—is featured on Coleco's *Slide 'N Splash* wading pool.



ColecoVision—the state of the art, expandable video game/home computer system—brings the challenge and excitement of the arcade experience into the home. Included with the system is the Donkey Kong cartridge, based on the very popular arcade game.





The Hardware

The introduction of *ColecoVision* in August 1982 represented Coleco's entry into the video game/home computer market. Taking advantage of consumers' dissatisfaction with existing systems, Coleco creatively applied state of the art technology and produced *ColecoVision*—the most advanced system in the world. Its outstanding features include arcade quality graphic resolution, superior game controllers, an array of licensed arcade game software and modular expandability to incorporate state of the art developments and additional features. It provides an evolutionary capability for the consumer to participate in the home computer revolution and enjoy software experiences in the areas of entertainment, information management and education.

In 1982, Coleco introduced two expansion modules. Expansion Module #1 makes it possible for all cartridges compatible with the *Atari 2600 VCS* to be played on the *ColecoVision* system. This allows the *Atari VCS* owner to trade up to a *ColecoVision* without discarding existing software, and it gives *ColecoVision* owners the opportunity to take advantage of a large library of cartridges already on the market.

Expansion Module #2, a driving module complete with steering wheel and *Turbo* cartridge, turns *ColecoVision* into the cockpit of a high performance race car.

Early this year, Coleco introduced a technologically advanced *Super Game Module* with memory capacity substantially greater than video game cartridges presently on the market. This will make the most advanced computerized entertainment software available for *ColecoVision*.

Two new controller components were introduced to further enhance the playability of the *ColecoVision* system. The *Super Action Controller* with its arcade style joy stick, speed roller, keypad and four multiple-use player select buttons lets you control the movement of up to four different players. The set of two controllers is packaged with Coleco's unusual *Super Action Baseball* cartridge.

The *Roller Controller* console features an arcade style track ball and fire/action but-

tons, houses two *ColecoVision* controllers, and includes the arcade game *Slither*.

At the Consumer Electronics Show in June, Coleco will introduce a modular addition to the *ColecoVision* system which will address itself in a unique way to the three major uses for the home computer: entertainment, information management and education. It will make *ColecoVision* a powerful, utilitarian, and easy to operate home computer system.

The Software

In excess of 2 million units of software were sold in 1982, about 4 cartridges for each of the 560,000 *ColecoVision* units shipped.

This success is attributed in part to our aggressive licensing program. We secured the rights to many of the most popular arcade games, including *Donkey Kong*, *Zaxxon* and *Turbo*. We also turned our *Smurf* license into the most exciting juvenile cartridge in the industry.

Our software line has been expanded for 1983 and by year end there will be approximately 35 *ColecoVision* titles on the market. The most popular arcade titles will continue to be the backbone of our library, including *Donkey Kong Junior*, *Buck Rogers*, *Time Pilot* and *Looping*.

Cartridges based on the movie titles *Rocky* and *Tarzan* will be marketed in 1983 as well as titles from other entertainment areas such as television and sports.

Expansion Module #3—The Super Game Module brings increased memory capability and computer grade software to the already powerful ColecoVision system.



Coleco—the only company to manufacture home video game cartridges for the Atari 2600 Video Computer System, Mattel's Intellivision and our own ColecoVision—provides the video game owner with popular arcade titles.



Video Products For Other Systems



Coleco was the only company in 1982 to manufacture home video game cartridges for the three major systems—Atari's *2600 Video Computer System*, Mattel's *Intellivision* and our own *ColecoVision* system. In the aggregate, Coleco shipped more than eight million units of software, with six million units for the Atari and Mattel systems, and became one of the largest producers of home video game software.

Coleco's outstanding success in software was based on three elements: its creative licensing strategy, the quality of execution in converting the game from coin-op to home use and a powerful advertising campaign. Recognizing the consumer's desire for home entertainment based on coin-operated arcade games, Coleco licensed the rights to very popular arcade hits such as *Donkey Kong*, *Mouse Trap*, *Carnival*, *Venture* and many others. Aware of the large number of unlicensed and unadvertised titles being offered for the Atari and Mattel systems by other companies, Coleco limited the number of titles offered and concentrated on the quality of programming and effectiveness of advertising in order to achieve distinctiveness and recognition.

We will apply the same strategy in 1983. For the Atari and Mattel systems, we will offer the strongest of our licensed properties, including games like *Zaxxon*, *Smurf*, *Turbo*, *Donkey Kong Junior*, *Time Pilot* and *Rocky*. Continued selectivity and self-restraint is required in managing our cartridge business since there is currently an oversupply of software on the market for the Atari system in particular. The market should substantially purge itself of surplus titles in 1983. It is likely that many of our competitors, particularly those without a distinctive and effective strategy, will find it difficult to sustain a viable position in this market. However, we envision continued health and growth for this market. The opportunities for increased market share for Coleco are very promising. In view of current market conditions, we will continue to be cautious in managing the inventory risk.

For 1983, Coleco introduced the *Gemini* Video Game System, a freestanding system for use with all *Atari 2600 VCS* cartridges made by a variety of manufacturers such as Coleco, Atari, ActiVision, Imagic and Parker Brothers. The unit features advanced controllers that have both joy sticks and paddle switches. As a special bonus, *Gemini* comes with our popular *Donkey Kong* cartridge, plus \$25.00 in coupons toward the purchase of five *Atari 2600 VCS* compatible cartridges made by Coleco. Designed as a low-priced basic unit, *Gemini* will retail for less than \$100.

The *Sound I Voice* Module adds the magic of voice to video game playing through a patented digital encoding system. The voice module operates in conjunction with specially programmed video game cartridges. Voices and sounds interact with the game play action on the screen to add an exciting new dimension to home video games. It connects not only to the *Gemini* Video Game System, but also to the *Atari 2600 VCS* and *ColecoVision* Expansion Module #1.

Packaged with the *Berenstain Bears* cartridge, the *Sound I Voice* Module will feature additional cartridges/cassettes, including the *Smurfs* and *Dr. Seuss*.

Gemini is the low-priced video game system with advanced controllers featuring both joy sticks and paddle switches, the *Donkey Kong* game cartridge and the *Sound I Voice* Module add-on.



Realistic arcade game play and styling, quality graphics and the most popular arcade game titles combine to make Coleco's portable electronic games "The arcade games you can take home with you."



Portable Electronic Games



For a number of years, Coleco has maintained a leadership position in the hand held or portable, table top electronic game market. We have been in the forefront of technological developments beginning with the use of the microprocessor in these products in 1978. We have continued our leadership through patented developments in our *Head to Head* hand held sports games and the application of vacuum fluorescent display technology in our 1982 introductions.

For 1982 Coleco developed a line of four portable, table top, licensed arcade games—*Pac-Man*, *Donkey Kong*, *Frogger* and *Galaxian*. With *Pac-Man* the clear leader, Coleco shipped three million units of these games.

Through exclusive licensing agreements with arcade game manufacturers, such as Bally, Nintendo and Sega, Coleco made the official home versions of these arcade games resemble the look, play, score and sound of their arcade game counterparts.

Coleco's success in this product category results from the effective execution of marketing strategy which involved:

- The acquisition of highly recognized licensed arcade game titles.

- Programming and styling which replicates the coin-operated arcade game play and look.

- The use of an extensive TV advertising campaign.

- Ramping up to high volume production soon after start up.

For 1983 Coleco has expanded its line of table top arcade games to include three additional arcade game hits:

Ms. Pac-Man—featuring the leading lady of the arcade in eight different maze situations—eating dots, power capsules and bonus-score fruits as she goes.

Donkey Kong Junior—the popular arcade game follow up to *Donkey Kong*, one of the biggest hits of 1982. True to the arcade version, players attempt to help *Junior* free his dad, *Donkey Kong*, from imprisonment by *Mario*.

Zaxxon—the first three-dimensional, portable arcade game. The player controls a space fighter which must be flown over realistic 3-D “walls,” concluding with a final battle against the formidable *Zaxxon* robot.

Throughout 1983, these new introductions are being advertised on national TV in separate commercials with the continued use of Mr. Arcade as a spokesman. These products will again be merchandised as “The arcade game you can take home with you.”

As a profitable adjunct to these high volume electronic games, Coleco is stepping up promotional efforts for the *Perma Power* Battery Eliminator/AC Adapter. This important after-market accessory acts as a permanent substitute for four “C” cell alkaline batteries (the power source of most of our table top electronic games) or a nine volt battery.

Quiz Wiz and the *Electronic Learning Machine* offer an early learning experience, a means by which younger children become acquainted with electronics through Coleco products. Over the years, we have developed an extensive software library which spans a wide variety of topics in 31 different cartridges and 15 activity card sets. Through these products, we seek to assist children in developing their ability to function effectively in an electronic world.

Ms. Pac-Man, the leading lady of the arcade, stars in Coleco's self-contained, portable electronic arcade game.



Financial Review Contents

Consolidated Statement of Operations	21
Consolidated Balance Sheet	22
Consolidated Statement of Stockholders' Equity	24
Consolidated Statement of Changes in Financial Position	25
Notes to Consolidated Financial Statements	26
Report of Independent Certified Public Accountants	31
Five Year Summary	32
Management's Discussion and Analysis of Financial Condition and Results of Operations	33

Coleco Industries, Inc.
Consolidated Statement of Operations

Years Ended December 31,	1982	1981	1980
	<i>(Amounts in thousands, except per share data)</i>		
Net Sales	\$510,380	\$178,031	\$162,907
Costs and Expenses:			
Cost of goods sold	279,840	115,172	97,595
Selling and administrative expenses	135,386	44,925	38,539
Interest expense	9,707	4,470	3,672
	424,933	164,567	139,806
Earnings Before Income Taxes and Extraordinary Credit	85,447	13,464	23,101
Income Tax Provision	40,551	5,753	10,064
Earnings Before Extraordinary Credit	44,896	7,711	13,037
Extraordinary Credit Resulting from Utilization of Tax Loss Carryforward			3,612
Net Earnings	\$ 44,896	\$ 7,711	\$ 16,649
Per Share Results:			
Earnings Before Extraordinary Credit	\$ 2.90	\$.51	\$.92
Extraordinary Credit Resulting from Utilization of Tax Loss Carryforward			.25
Net Earnings Per Share	\$ 2.90	\$.51	\$ 1.17

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

Coleco Industries, Inc.
Consolidated Balance Sheet

December 31, 1982 1981
(Amounts in thousands)

Assets

Current Assets:

Cash and cash equivalents	\$ 52,474	\$ 7,749
Accounts receivable, less allowances of \$55,441 and \$11,556	107,803	21,236
Inventories	69,149	42,629
Other current assets	21,489	3,502

Total current assets **250,915** 75,116

Property, Plant & Equipment, at cost less accumulated depreciation of \$32,996 and \$30,270 **31,893** 20,340

Other Assets **3,057** 3,939

\$285,865 \$99,395

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

December 31,	1982	1981
	<i>(Amounts in thousands)</i>	
Liabilities and Stockholders' Equity		
Current Liabilities:		
Long-term debt—current portion	\$ 3,604	\$ 1,194
Accounts payable	64,388	19,130
Income taxes payable	9,951	1,990
Accrued expenses	43,365	11,638
Total current liabilities	121,308	33,952
Subordinated Debentures	52,225	
Long-Term Debt	16,604	17,075
Deferred Income Taxes	3,075	901
Total liabilities	193,212	51,928
Contingencies and Commitments		
Stockholders' Equity:		
Preferred stock—\$1 par value, 300,000 shares authorized; no shares issued		
Common stock—\$1 par value, 20,000,000 shares authorized; 15,297,704 shares issued and outstanding	15,298	15,298
Capital in excess of par value	6,427	5,293
Retained earnings	70,928	26,876
Total stockholders' equity	92,653	47,467
	\$285,865	\$99,395

Coleco Industries, Inc.
Consolidated Statement of Stockholders' Equity

Years Ended December 31, 1982, 1981 and 1980	Common Stock	Capital in Excess of Par Value	Retained Earnings
		<i>(Amounts in thousands)</i>	
Balances at December 31, 1979	\$ 6,889	\$7,433	\$ 2,516
Net earnings			16,649
Issuance of common stock	550	4,891	
Stock options exercised	76	179	
Balances at December 31, 1980	7,515	12,503	19,165
Net earnings			7,711
Stock options exercised	134	439	
Balances at December 31, 1981	7,649	12,942	26,876
Net earnings			44,896
Two for one stock split	7,649	(7,649)	
Compensation under stock option and incentive plans		1,134	
Cumulative foreign currency translation adjustment			(844)
Balances at December 31, 1982	\$15,298	\$6,427	\$70,928

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

Coleco Industries, Inc.**Consolidated Statement of Changes in Financial Position**

Years Ended December 31,	1982	1981	1980
		<i>(Amounts in thousands)</i>	
Financial Resources Were Provided by:			
Net earnings before extraordinary credit	\$ 44,896	\$ 7,711	\$13,037
Add items not requiring working capital:			
Depreciation and amortization	6,028	3,205	3,200
Noncurrent deferred tax provision	2,189	178	723
Total provided by operations before extraordinary credit	53,113	11,094	16,960
Extraordinary credit			3,612
Total provided by operations	53,113	11,094	20,572
Increase in long-term liabilities	55,774	70	5,374
Proceeds from issuance of common stock, net		568	5,441
Other, net	167	(199)	983
	109,054	11,533	32,370
Financial Resources Were Used for:			
Purchase of property, plant and equipment	16,862	6,269	3,838
Reduction of long-term debt	3,749	494	5,663
	20,611	6,763	9,501
Increase in Working Capital	88,443	4,770	22,869
Working Capital at beginning of year	41,164	36,394	13,525
Working Capital at end of year	\$129,607	\$41,164	\$36,394
Changes in Working Capital Items:			
Increase (Decrease) in Current Assets:			
Cash and cash equivalents	\$ 44,725	\$ (4,016)	\$11,727
Accounts receivable	86,567	7,470	1,755
Inventories	26,520	12,696	11,950
Other current assets	17,987	760	(2,683)
(Increase) Decrease in Current Liabilities:			
Short-term debt and current portion of long-term debt	(2,410)	(150)	4,169
Accounts payable	(45,258)	(11,441)	2,783
Income taxes payable	(7,961)	2,115	(4,041)
Accrued expenses	(31,727)	(2,664)	(2,791)
Increase in Working Capital	\$ 88,443	\$ 4,770	\$22,869

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

Note 1—Summary of Significant Accounting Policies:

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and all of its subsidiaries, including a Canadian subsidiary, after elimination of intercompany accounts and transactions. Certain amounts for 1980 and 1981 have been reclassified to conform with the 1982 financial statement presentation.

Translation of Foreign Currency—Effective January 1, 1982, the Company changed its accounting policy for the translation of foreign currency to comply with the provisions of the Financial Accounting Standards Board's Statement No. 52. No restatement of the prior periods was made because the amounts involved were immaterial. The assets and liabilities of the Canadian subsidiary are now translated at the current exchange rate, and revenue and expense accounts are translated at the average exchange rate during the period. Gains or losses from foreign currency transactions are recognized currently. The gain or loss resulting from translation of the Canadian financial statements is included as a cumulative translation adjustment in retained earnings.

Accounts Receivable—The Company provides at the time of sale allowances for doubtful accounts, estimated returns and other credits including cooperative advertising.

Inventories—Inventories are valued at the lower of cost, determined on the first-in, first-out method, or market.

Prepaid Advertising—The Company enters into agreements which provide for products and cash to be exchanged for media advertising. Prepaid advertising which was based on the fair market value of the media advertising was \$14,178,000 at December 31, 1982 and \$2,728,000 at December 31, 1981.

Property, Plant and Equipment—Property, plant and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets. Major improvements to existing plant and equipment are capitalized. Expenditures for maintenance and repairs which do not extend the life of the asset are charged to expense as incurred. The cost of molds, dies, and fixtures are depreciated over the estimated market life of the related products, but not more than three years.

Goodwill—The excess of cost over the net assets of businesses acquired is amortized on the straight-line method over periods not exceeding 40 years.

Income Taxes—Deferred income taxes are provided for income and expense items which are recognized in different years for tax purposes than for financial reporting purposes. Investment tax credits are recorded as reductions of income tax expense in the year they are realized except for the investment tax credit resulting from the safe harbor tax lease. The Company accounts for the purchase of tax benefits in connection with safe harbor tax leases as an investment. The investment is reduced over the lease period by realized tax savings and deferred income taxes resulting from the transaction are appropriately recorded. No provision is made for taxes on the undistributed earnings of subsidiaries not consolidated for U.S. income tax purposes since it is the intention of the Company to reinvest such undistributed earnings.

Earnings Per Share—Net earnings per share of common stock are based upon the weighted average number of common shares outstanding during the respective periods, adjusted for dilutive common stock equivalents (15,470,000 shares in 1982, 15,264,000 shares in 1981 and 14,287,000 shares in 1980).

Note 2—Income Taxes:

The income tax provision (benefit) for the years ended December 31 consisted of the following:

	1982	1981	1980
	<i>(Amounts in thousands)</i>		
Current:			
Federal	\$26,789	\$2,602	\$ 6,705
Foreign	2,534	2,578	968
State	4,625	187	916
Total Current	33,948	5,367	8,589
Deferred:			
Federal and State	6,710	341	417
Foreign	(107)	45	1,058
Total Deferred	6,603	386	1,475
Total Provision	\$40,551	\$5,753	\$10,064

The deferred federal and state provision (benefit) at December 31, 1982 included the following: \$7,586,000 for a safe harbor tax lease, \$2,648,000 for compensation under incentive plans, \$(3,750,000) for deferred royalty income, \$(3,050,000) for doubtful accounts and \$3,276,000 for other provisions.

The income tax benefit resulting from the utilization of the operating loss carryforward for the year ended December 31, 1980 has been presented as an extraordinary credit totaling \$3,612,000.

Note 3—Long-Term Liabilities and Credit Lines:

Subordinated Debentures—On September 15, 1982, the Company made a public offering of \$60,500,000 of 14³/₈% subordinated debentures due 2002. The debentures were issued at 89.385% of face value resulting in a yield to maturity of 16.16% and net proceeds of \$52,215,000 after deducting \$8,285,000 of underwriting discount and other issue costs. The debentures are redeemable at any time at the option of the Company, except that they may not be redeemed prior to November 1, 1987 with money borrowed at an annual interest cost of less than 16.16%. Annual sinking fund requirements of \$6,050,000 in cash or acquired debentures commence in 1993. The proceeds of the offering were used to reduce certain short-term bank debt originally incurred for working capital purposes.

Long-Term Debt—Long-term debt at December 31 consisted of the following:

	1982	1981
	<i>(Amounts in thousands)</i>	
11% term loan due 1988, with aggregate annual principal payments ranging from \$2,451,000 in 1983 to \$2,885,000 in 1988	\$14,985	\$15,617
Other long-term debt	5,223	2,652
	20,208	18,269
Current portion	(3,604)	(1,194)
	\$16,604	\$17,075

The term loan is collateralized by the Company's assets and contains covenants similar to the Company's revolving credit agreements. In 1983, the Company anticipates modifying the term loan to limit the security interest to a portion of the Company's property, plant and equipment.

Credit Lines—On May 7, 1982 the Company increased the borrowing limit under its consolidated secured short-term lines of credit from \$40,000,000 to \$72,500,000. The revolving credit agreements covering \$62,500,000 of the lines of credit expire April 30, 1983 and include a facility fee of approximately 1/2%. This portion of the line consists of a number of financing options including banker's acceptances and borrowings at the London Interbank Offered Rate (LIBOR). The interest rates on these instruments, historically, have been equal to or below the prime rate. The balance of the line (\$10,000,000) expires December 31, 1983 and provides for interest at a rate of 1% over LIBOR and a commitment fee of 1/2% on the unused portion of the line. The lines of credit are limited by a collateral formula which is based upon levels of accounts receivable and inventory as defined in the agreements. The Company anticipates modifying its revolving bank loan agreements in 1983 to increase the amount of borrowings permitted and to eliminate any security interest in the Company's assets.

The short-term debt agreements contain various covenants including maintenance of working capital and net worth and a limit on fixed asset additions. These agreements also limit the payment of cash dividends to \$750,000 plus 25% of net earnings subsequent to January 1, 1981. There were no compensating balance requirements under these borrowing arrangements.

Scheduled Maturities—Aggregate maturities of long-term liabilities for the five years subsequent to December 31, 1982, excluding capitalized lease obligations, are: 1983—\$3,464,000; 1984—\$2,681,000; 1985—\$2,877,000; 1986—\$3,062,000; 1987—\$3,277,000.

Supplemental Information—Short-term borrowings in 1982, 1981 and 1980 pursuant to the Company's revolving bank loans were as follows:

	1982	1981	1980
	<i>(Amounts in thousands)</i>		
Average amount outstanding	\$25,262	\$12,224	\$ 6,562
Maximum amount outstanding	\$59,779	\$27,300	\$15,154
Average effective interest rate	14.4%	18.9%	18.3%

Note 4—Common Stock and Capital in Excess of Par Value:

On November 15, 1982, the Board of Directors declared a two for one common stock split effected in the form of a 100% stock dividend to shareholders of record on December 31, 1982. The additional shares were distributed on January 28, 1983. Per share amounts and outstanding share data for all prior periods have been restated to reflect the two for one stock split.

On October 8, 1980, the Company completed a public offering of 1,100,000 shares of its common stock at \$5.44 per share. The net proceeds of the offering were used to prepay a term loan and a portion of short-term debt under the Company's revolving bank loan agreements.

Subscription rights for the purchase of common stock at an average price of \$2.96 per share were granted to key employees in 1982 under the 1981 Long-Term Incentive Plan (see Note 5). The amounts receivable from such subscriptions total \$3,047,000, bear interest at 9% and are payable in four equal annual installments through 1987. Subscriptions Receivable have been offset against Common Stock Subscribed at December 31, 1982.

Note 5—Stock Option and Incentive Plans:

The 1981 Long-Term Incentive Plan for all officers and key employees of the Company provides for various types of awards. These awards may include nonqualified stock options with or without related stock appreciation rights, performance units, restricted stock or options for restricted stock. The Plan was amended in 1982, subject to stockholder approval at the 1983 Annual Meeting, to increase the number of shares available for award from 700,000 to 1,500,000 and to include awards of incentive stock options and stock subscription rights. Through December 31, 1982, grants had been made as follows: Restricted Stock Awards—105,000 shares; Subscription Rights—1,030,000 shares; Incentive Stock Options—81,000 shares. The incentive stock options were granted at a price of \$17.35 and were not exercisable at December 31, 1982.

Options granted under the Company's 1973 Qualified Stock Option Plan expired by operation of law on May 21, 1981. Qualified stock options were granted at prices equal to 100% of the fair market value of the common stock on the date of grant.

Changes under the Company's 1973 Qualified Stock Option Plan were as follows:

	Number of Shares	Option Price	
		Per Share	Total
Options outstanding at December 31, 1980	332,500	\$1.69 - \$5.94	\$848,000
Exercised	(253,000)	\$1.69 - \$4.16	(544,000)
Canceled	(15,000)	\$5.91	(89,000)
Expired	(64,500)	\$2.13 - \$5.94	(215,000)
Options outstanding at December 31, 1981 and 1982	—	—	—

Options to purchase 131,400 shares were exercised during 1980 at prices of between \$1.53 and \$2.60 per share.

Under the Company's 1971 Incentive Stock Option Plan, the Board of Directors granted options to officers to purchase an aggregate of 295,704 shares of common stock at a price not less than 50% of the quoted market value at the date of grant. No options were available for future grant after December 31, 1979, as the plan expired on that date. At December 31, 1980, there were options to purchase 15,000 shares outstanding which were exercised during 1981 at an option price of \$1.64. Options to purchase 20,000 shares were exercised during 1980 at a price of \$1.32 per share.

For awards made under stock option and incentive plans, the excess of the aggregate estimated fair value at the dates of grant over the purchase prices is charged against earnings as compensation expense ratably over the restriction periods.

Note 6—Pension Plan:

The Company has a noncontributory pension plan covering U.S. salaried, clerical and administrative employees. In 1982, the Company amended its plan to provide substantial benefit improvements. Pension expense is actuarially computed and includes amortization of past service cost over a ten year period. Pension expense for the years ended December 31, 1982, 1981 and 1980 was \$575,000, \$296,000, and \$268,000, respectively. The Company makes annual contributions to the plan equal to the amounts accrued for pension expense.

The actuarial present value of accumulated benefits to participants of the plan and the net assets available for those benefits

(at the valuation date of January 1) were as follows:

	1982	1981
	<i>(Amounts in thousands)</i>	
Actuarial present value of accumulated plan benefits:		
Vested	\$2,246	\$1,006
Nonvested	298	378
Total	\$2,544	\$1,384
Net assets available for benefits	\$1,815	\$1,421

An assumed weighted average rate of return of 8% was used for 1982 and 1981 in determining the actuarial present value of accumulated plan benefits.

Note 7—Contingencies and Commitments:

The Company is involved in a number of lawsuits incidental to its business. In the opinion of management, such proceedings in the aggregate will not have a material adverse effect on the Company's consolidated financial position.

At December 31, 1982 and 1981, the Company was contingently liable for outstanding letters of credit in the amounts of \$4,900,000 and \$823,000, respectively.

Minimum royalty commitments and guarantees under certain licensing agreements aggregated approximately \$7,100,000 at December 31, 1982, and are payable principally over a five year period.

Note 8—Leases:

Rental expense under operating leases amounted to \$1,136,000, \$950,000 and \$714,000 for the years ended December 31, 1982, 1981 and 1980, respectively. The Company had no material capital leases at December 31, 1982 or 1981.

Future minimum lease payments as of December 31, 1982 under all leases with initial or remaining non-cancelable terms in excess of one year are summarized as follows:

	All Leases	
	<i>(Amounts in thousands)</i>	
Year Ended:		
December 31, 1983	\$ 2,273	
December 31, 1984	2,076	
December 31, 1985	1,730	
December 31, 1986	1,552	
December 31, 1987	1,494	
Subsequent years	5,614	
Total minimum payments	\$14,739	

Note 9—Supplementary Financial Information:

	1982	1981
	<i>(Amounts in thousands)</i>	
Inventories include the following:		
Raw materials	\$35,376	\$17,290
Work in process	10,627	5,423
Finished goods	23,146	19,916
	\$69,149	\$42,629

Property, plant and equipment includes the following:

Land	\$ 1,048	\$ 1,111
Buildings	13,374	12,759
Machinery and equipment	35,546	24,390
Molds, dies and fixtures	14,921	12,350
Total, at cost	64,889	50,610
Less: accumulated depreciation	(32,996)	(30,270)
	\$31,893	\$20,340

Accrued expenses include the following:

Royalties	\$12,791	\$ 1,275
Payroll and other compensation	10,063	3,279
Advertising	7,007	3,083
Deferred royalty income	7,500	
Other	6,004	4,001
	\$43,365	\$11,638

	1982	1981	1980
	<i>(Amounts in thousands)</i>		

Selling and administrative expenses include the following:

Advertising costs	\$46,456	\$16,226	\$14,007
Royalties	\$27,001	\$ 2,477	\$ 992
Product development costs	\$13,085	\$ 5,568	\$ 4,235
Maintenance and repairs	\$ 3,267	\$ 2,429	\$ 1,727

Note 10—Business Segment Information:

Product Line Information—The Company's operations are conducted in two industry segments: Family Leisure Games and Toys, and Swimming Pools and Outdoor Products. These operations are generally carried out in joint facilities with common management. During 1982, the Company significantly expanded its use of contract manufacturers in the Far East to manufacture electronic and other products. Joint facilities were allocated on the basis of sales value of production. In other instances, where the separation of the Company's business segments was indefinite, allocations were made based primarily upon management's judgment.

The following table sets forth selected financial information relating to industry segments for the years 1980 through 1982.

	1982	1981	1980
	<i>(Amounts in thousands)</i>		
Net Sales:			
Family Leisure Games and Toys	\$439,489	\$109,946	\$113,086
Swimming Pools and Outdoor Products	70,891	68,085	49,821
	\$510,380	\$178,031	\$162,907
Operating Profit:			
Family Leisure Games and Toys	\$ 87,560	\$ 10,873	\$ 21,636
Swimming Pools and Outdoor Products	7,594	7,061	5,137
Operating Profit	95,154	17,934	26,773
Interest Expense	(9,707)	(4,470)	(3,672)
Earnings Before Income Taxes and Extraordinary Credit	\$ 85,447	\$ 13,464	\$ 23,101
Identifiable Assets:			
Family Leisure Games and Toys	\$247,997	\$ 65,242	\$ 49,763
Swimming Pools and Outdoor Products	31,801	30,801	26,119
Corporate and unallocable	6,067	3,352	3,335
	\$285,865	\$ 99,395	\$ 79,217
Capital Expenditures:			
Family Leisure Games and Toys	\$ 14,396	\$ 4,341	\$ 2,344
Swimming Pools and Outdoor Products	2,466	1,928	1,494
	\$ 16,862	\$ 6,269	\$ 3,838
Depreciation Expense:			
Family Leisure Games and Toys	\$ 3,851	\$ 2,072	\$ 1,899
Swimming Pools and Outdoor Products	1,181	928	963
	\$ 5,032	\$ 3,000	\$ 2,862

In the Family Leisure Games and Toys segment there were three major product categories: Electronics, Toys and Games and Ride-

On Vehicles. The following table sets forth net sales information with respect to these categories for the last three years:

	1982	1981	1980
	<i>(Amounts in thousands)</i>		
Electronics	\$373,547	\$ 58,148	\$ 90,412
Toys and Games	22,291	26,941	20,779
Ride-On Vehicles	43,651	24,857	1,895
	\$439,489	\$109,946	\$113,086

Geographical Information—The Company's operations are conducted primarily in the U.S. and Canada. Generally, intercompany sales are at prices approximating those which the selling entity is able to obtain on sales of similar products to unaffiliated customers.

The following table sets forth selected information relating to U.S. and foreign (primarily Canadian) operations, including export sales, for the years 1980 through 1982.

	1982	1981	1980
	<i>(Amounts in thousands)</i>		
Net Sales:			
United States	\$472,504	\$155,679	\$139,006
Foreign	55,470	32,565	30,907
Intergeographic	(17,594)	(10,213)	(7,006)
	\$510,380	\$178,031	\$162,907
Operating Profit:			
United States	\$ 87,863	\$ 12,738	\$ 22,001
Foreign	7,291	5,196	4,772
Operating Profit	95,154	17,934	26,773
Interest Expense	(9,707)	(4,470)	(3,672)
Earnings Before Income Taxes and Extraordinary Credit	\$85,447	\$ 13,464	\$ 23,101
Identifiable Assets:			
United States	\$251,006	\$ 77,325	\$ 60,667
Foreign	34,859	22,070	18,550
	\$285,865	\$ 99,395	\$ 79,217

Note 11—Selected Quarterly Information (Unaudited):

	1982 Quarter Ended					1981 Quarter Ended				
	March 31	June 30	Sept. 30	Dec. 31	For the Year	March 31	June 30	Sept. 30	Dec. 31	For the Year
	<i>(Amounts in thousands, except per share data)</i>									
Net Sales	\$54,739	\$86,801	\$165,588	\$203,252	\$510,380	\$36,570	\$57,454	\$49,059	\$34,948	\$178,031
Gross Profit	\$21,544	\$34,382	\$ 86,612	\$ 88,002	\$230,540	\$12,712	\$21,204	\$18,588	\$10,355	\$ 62,859
Net Earnings (Loss)	\$ 4,520	\$ 7,437	\$ 17,559	\$ 15,380	\$ 44,896	\$ 2,364	\$ 3,988	\$ 2,020	\$ (661)	\$ 7,711
Net Earnings (Loss) Per Share	\$.29	\$.49	\$ 1.15	\$.97	\$ 2.90	\$.16	\$.26	\$.13	\$ (.04)	\$.51

Report of Independent Certified Public Accountants

To the Stockholders and Board of Directors of Coleco Industries, Inc.:

We have examined the consolidated balance sheets of Coleco Industries, Inc. and subsidiaries at December 31, 1982 and 1981, and the related consolidated statements of operations, stockholders' equity and changes in financial position for the years ended December 31, 1982, 1981 and 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Coleco Industries, Inc., and subsidiaries at December 31, 1982 and 1981, and the consolidated results of their operations and the changes in their financial position for the years ended December 31, 1982, 1981 and 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Hartford, Connecticut
February 15, 1983

Five Year Summary

Operating Data:	1982	1981	1980*	1979*	1978*
	<i>(Amounts in thousands, except per share data)</i>				
Net Sales	\$510,380	\$178,031	\$162,907	\$136,495	\$107,011
Cost of goods sold	279,840	115,172	97,595	90,354	95,086
Selling and administrative expenses	135,386	44,925	38,539	29,908	32,097
Interest expense	9,707	4,470	3,672	6,082	6,733
Earnings (Loss) Before Income Taxes and Extraordinary Credit	85,447	13,464	23,101	10,151	(26,905)
Income Tax Provision (Benefit)	40,551	5,753	10,064	4,793	(4,645)
Earnings (Loss) Before Extraordinary Credit	44,896	7,711	13,037	5,358	(22,260)
Extraordinary Credit Resulting from Utilization of Tax Loss Carryforwards			3,612	3,728	
Net Earnings (Loss)	\$ 44,896	\$ 7,711	\$ 16,649	\$ 9,086	\$ (22,260)
Net Earnings (Loss) Per Share:					
Earnings (Loss) Before Extraordinary Credit	\$ 2.90	\$.51	\$.92	\$.39	\$ (1.62)
Extraordinary Credit Resulting from Utilization of Tax Loss Carryforwards			.25	.27	
Net Earnings (Loss) Per Share	\$ 2.90	\$.51	\$ 1.17	\$.66	\$ (1.62)
Average Common Shares Outstanding	15,470	15,264	14,287	13,822	13,769
Balance Sheet Data:					
Working capital	\$129,607	\$ 41,164	\$ 36,394	\$ 13,525	\$ (1,510)
Current ratio	2.1	2.2	2.7	1.6	1.0
Capital expenditures	\$ 16,862	\$ 6,269	\$ 3,838	\$ 2,691	\$ 2,535
Depreciation	\$ 5,032	\$ 3,000	\$ 2,862	\$ 4,067	\$ 4,643
Total assets	\$285,865	\$ 99,395	\$ 79,217	\$ 56,558	\$ 65,853
Book value per common share	\$ 6.06	\$ 3.10	\$ 2.61	\$ 1.22	\$.56
Stockholders' equity	\$ 92,653	\$ 47,467	\$ 39,183	\$ 16,838	\$ 7,741
Return on average stockholders' equity	70.8%	17.3%	57.7%	78.3%	N/A

*Restated in 1981 under Financial Accounting Standards Board Statement No. 43. The restatement did not have a material effect in any year.

Financial Condition

The Company's financial position at December 31, 1982 was stronger than any time in its history. Total equity of \$92.7 million at December 31, 1982 was \$45.2 million higher than December 31, 1981. Cash and cash equivalents were \$52.5 million at December 31, 1982, an increase of \$44.7 million over the prior year-end.

During 1982, the Company significantly improved its working capital and debt structure by issuing \$60.5 million of 14³/₈% subordinated debentures. The \$52.2 million of net proceeds of the debentures were used to repay borrowings outstanding under short-term credit agreements. Working capital increased by \$88.4 million in 1982 to \$129.6 million, with net earnings of \$44.9 million, together with the proceeds from the debentures, providing the majority of the increase.

The Company maintains credit facilities with various banks in the U.S. and Canada which totaled \$72.5 million in 1982. The credit facilities are expected to be increased in 1983 to facilitate expanded operations. At December 31, 1982, there were no borrowings outstanding against these facilities.

The Company attempts to maintain its working capital at levels consistent with its goals for growth. Programs to optimize the Company's working capital include centralized cash management, strong inventory control systems and a continuing emphasis on receivable collections.

In 1982, the Company supported its continuing growth by significantly increasing its capital expenditures to \$16.9 million.

Inflation

While an inflationary trend generally distorts the conventional measures of financial performance, the Company believes that its profit margins have improved on an inflation adjusted basis. The prices of raw materials, the major cost component of the Company's products, have not increased at the same rate as inflation and in some cases have declined. The Company expects that its continuing efforts to increase productivity and control costs will lessen the impact of inflation on its future operations.

Selling price increases in both segments of the Company's business have normally been less than the inflation rate. In 1982, the change in revenues in both of the Company's industry segments was primarily a result of the change in unit volume. The Company was able to forego or limit price increases on many of its products in 1982, in part, as a result of its cost reduction program.

1982 Compared with 1981

Net sales in 1982 were a record \$510.4 million, an increase of \$332.3 million over 1981. Sales of Family Leisure Games and Toys contributed \$329.5 of the increase primarily as a result of new electronic product introductions. These newly introduced products accounted for more than 70% of total sales. The Company's new electronic products include a line of table top arcade games, the *ColecoVision* home video game system and video game cartridges. Sales of Swimming Pools and Outdoor Products increased by \$2.8 million, primarily due to higher unit volume.

Cost of goods sold was \$279.8 million, an increase of \$164.7 million as a result of higher sales volumes. The overall gross margin increased to 45.2% compared with 35.3% in 1981, primarily as a result of the significant sales volume of the new, higher margin, electronic products.

Selling and administrative expenses were \$135.4 million, an increase of \$90.5 million, primarily due to increased advertising expenses, licensing fees and product development costs. Selling and administrative expenses as a percentage of net sales increased to 26.5% from 25.2% in 1981.

Interest expense was \$9.7 million, an increase of \$5.2 million as a result of higher average borrowings, which was partially offset by lower effective interest rates.

The provision for income taxes was 47.5% of earnings before taxes in 1982, up from 42.7% in 1981. The higher effective tax rate in 1982 resulted primarily from higher state income taxes and lower investment tax credits as a percentage of earnings before taxes. Net earnings were a record \$44.9 million, an increase of \$37.2 million over 1981.

1981 Compared with 1980

Net sales in 1981 were \$178.0 million, an increase of 9.3% over 1980 sales of \$162.9 million. Sales of Swimming Pools and Outdoor Products contributed \$18.3 million of the increase primarily as a result of increased unit volume.

Sales of Family Leisure Games and Toys decreased by \$3.1 million or 2.8% primarily due to a substantial decline in sales of electronic sports games which was partially offset by significant increases in sales of vehicles and basic toys and games. Net sales of the electronic product line decreased from \$90.4 million in 1980 to \$58.1 million in 1981. The sales decline in electronic sports games was primarily due to the liquidation by competitors of excess inventory of early generation games at unusually low prices. Net sales from ride-on vehicles increased from \$1.9 million in 1980 to \$24.9 million in 1981, while net sales of basic toys and games increased from \$20.8 million in 1980 to \$26.9 million in 1981.

Cost of goods sold was \$115.2 million, an increase of \$17.6 million or 18.0% as a result of higher sales volumes and a change in sales mix. The overall gross profit margin declined in 1981 to 35.3% compared with 40.1% in 1980, due to a decrease in sales of higher margin electronic products. However, margins in all other categories increased in 1981 as compared to 1980.

Selling and administrative expenses were \$44.9 million, an increase of \$6.4 million or 16.6%. The increase resulted primarily from higher advertising expenses, licensing fees and product development costs. Selling and administrative expenses as a percentage of net sales increased to 25.2% from 23.7% in 1980.

Interest expense was \$4.5 million, an increase of \$.8 million or 21.7%, primarily due to higher average borrowing levels and a significant increase in the average prime rate.

The provision for income taxes was 42.7% of earnings before taxes in 1981, down from 43.6% in 1980. The lower effective tax rate in 1981 was primarily due to lower state income taxes, partially offset by lower investment tax credits as a percentage of earnings before taxes. Net earnings decreased by \$5.3 million to \$7.7 million before giving effect to an extraordinary credit of \$3.6 million resulting from the remaining tax loss carryforward from 1978.

Facilities

Corporate Headquarters

Coleco Corporate Center
999 Quaker Lane South
West Hartford, Connecticut 06110
(203) 725-6000

Manufacturing Facilities and Distribution Centers

21 West Main Street
Mayfield, New York 12117
Coleco Park
Mayfield, New York 12117
80 Lincoln Street
Gloversville, New York 12078
Operations Center
2 Park Street
Amsterdam, New York 12010
10 Park Street
Amsterdam, New York 12010
37 Prospect Street
Amsterdam, New York 12010
50 Park Street
Amsterdam, New York 12010
31-35 Willow Street
Amsterdam, New York 12010
50 Willow Street
Amsterdam, New York 12010

Subsidiaries

Coleco (Canada) Limited
4000 St. Ambroise Street
Montreal, Quebec, Canada H4C 2C8
Coastal Industries, Inc.
190 Jony Drive
Carlstadt, New Jersey 07072

Company Sales Offices

New York
200 Fifth Avenue
New York, New York 10010
Chicago
4825 North Scott
Schiller Park, Illinois 60176
Los Angeles
1201 Bell Avenue
Tustin, California 92680
Montreal
4000 St. Ambroise Street
Montreal, Quebec, Canada H4C 2C8
Toronto
5149 Bradco Boulevard
Mississauga, Ontario, Canada L4W 2A6

Transfer Agent

Connecticut National Bank
777 Main Street
Hartford, Connecticut 06115

Registrar

The Connecticut Bank and Trust Company
One Constitution Plaza
Hartford, Connecticut 06103

Independent Certified Public Accountants

Coopers & Lybrand
100 Constitution Plaza
Hartford, Connecticut 06103

Stock Exchange Listing

The Company's Common Stock is listed on the New York Stock Exchange.
Ticker Symbol: CLO

Stockholders may obtain a copy of the Company's 1982 Annual Report on Form 10-K filed with the Securities and Exchange Commission by writing to Michael S. Schwefel, Secretary, Coleco Industries Inc., Coleco Corporate Center, 999 Quaker Lane South, West Hartford, Connecticut 06110.

Board of Directors

Arnold C. Greenberg^{1,2}
Leonard E. Greenberg¹
Melvin Y. Gershman
J. Brian Clarke
Morton E. Handel
Christopher W. Carriuolo^{1,2,3}
President
C & D Enterprises
Farmington, Connecticut
Omer S.J. Williams^{2,4}
Attorney at Law, Partner
Thacher, Proffitt & Wood
New York, New York
Mary Anne Krupsak^{3,4}
Attorney at Law
Albany, New York
Murray Hillman^{1,3,4}
President
The Strategy Workshop, Inc.
New York, New York
Seymour M. Leslie^{1,3,4}
Chairman, President and
Chief Executive Officer
MGM/UA Home Entertainment Group, Inc.
New York, New York

¹Member of Executive Committee.
²Member of Nominating Committee.
³Member of Human Resources Committee.
⁴Member of Audit Committee.

John F. Moran
Director Emeritus
West Hartford, Connecticut

Executive Officers

Arnold C. Greenberg
President and Chief Executive Officer
Leonard E. Greenberg
Chairman
J. Brian Clarke
Executive Vice President
Mark L. Yoseloff
Executive Vice President
Melvin Y. Gershman
Vice Chairman
Philip Cohen
Executive Vice President—Sales
George V. Goudreault
Executive Vice President—Operations
Morton E. Handel
Executive Vice President—Administration
and Finance
Michael S. Schwefel
Senior Vice President and General Counsel;
Secretary
Eric D. Bromley
Senior Vice President—Advanced
Research and Development
Martin Ehrlich
Senior Vice President—Orient Operations
Alfred R. Kahn
Senior Vice President—Marketing
Paul C. Meyer
Senior Vice President—Operations
Planning and Control
Martin Nadborny
Senior Vice President—Operations
Marvin Posner
Senior Vice President—Sales
Charles H. Murphy
Treasurer
Brian B. Sickler
Corporate Controller

Operating Executives

Coleco-United States

Hartford Office

Marvin Belsky
Vice President—Electronic Purchasing

Alvin R. Brown
Vice President—Far East Operations

Lawrence J. Karam
Vice President—Materials Management

James J. Pasquale
Vice President—Management Information Systems

John A. Passante
Vice President—Human Resources

Bert L. Reiner
Vice President—Product Development

Raymond H. Ringston
Vice President—Marketing Planning

Perry P. Rosensweig
Vice President—Sales Administration

Jerry D. Wood
Vice President—Marketing, Toys

Manufacturing

Michael A. Appel
Vice President—Materials

Frank Dempsey
Vice President—Purchasing

John J. Driska
Vice President—Manufacturing-North

Paul A. Dwyer
Vice President—Transportation

Douglas L. Glaspie
Vice President—Manufacturing-South

Lawrence H. Hewitt, Sr.
Vice President—Distribution

Ralph R. Liguori
Vice President—Operations Control

Victor J. Ragusa
Vice President—Industrial Relations

Dino G. Zampini
Vice President—Electronic Technical Services

Sales

Marvin Berger
Vice President—Sales, Toys and Games

Michael R. Kirsch
Vice President—Sales and Merchandising, Pools and Outdoor Products

Robert Rosenbaum
Vice President—Sales, Toys and Games

Sidney Silverman
Vice President—Sales, Pools and Outdoor Products

Coleco (Canada) Limited

J. Brian Clarke
Chairman, President and Chief Executive Officer

Georges Dussault
Senior Vice President—Operations

Gene M. Florio
Senior Vice President—Finance and Administration

Donald V. Taylor
Senior Vice President—Sales and Marketing

Denis Durnin
Vice President—Sales Administration

Gerry Goldenberg
Vice President—Operations Planning and Control

Bruce D. Morrow
Vice President—Sales

Michael F. Richards
Vice President—Sales, Electronics

Pierre Rouette
Vice President—Manufacturing

M. U. (Rich) Tanner
Vice President—Materials Management

Coastal Industries, Inc.

Charles T. Schaub
President

Kenneth Cecil
Vice President—Sales

Lionel Frank
Vice President—Administration/Finance

Frank Migliorino
Vice President—Traffic and Warehousing

Bruce Rindzuner
Vice President—Sales

Morris Tarlow
Vice President—Sales

Howard Uhde
Vice President—Production

Dr. Henry Young
Vice President—Technical Services



Coleco Industries, Inc.
Coleco Corporate Center
999 Quaker Lane South
West Hartford, Connecticut 06110