

# 1

---

**Coleco Industries, Inc.  
Interim Report**

*March 31, 1984*

**COLECO**

# COLECO

## To Our Stockholders:

Sales for the quarter ended March 31, 1984 totaled \$186.1 million, compared with 1983 first quarter sales of \$180.2 million. Earnings of \$4.4 million or \$.27 per share compared unfavorably with last year's record first quarter of \$16.2 million or \$1.01 per share, due primarily to lower profit margins for electronic products.

This strong sales performance resulted largely from continuing demand for the *Cabbage Patch Kids* dolls, the *ADAM Family Computer System* and the *ColecoVision* Video Game System. Approximately 2.5 million *Cabbage Patch Kids* were shipped in the first quarter, while *ADAM* and *ColecoVision* accounted for approximately 50% of total sales.

The worldwide demand for the *Cabbage Patch Kids* dolls continues to escalate, and our unshipped order backlog for the *Cabbage Patch Kids* product line now exceeds \$200 million and is growing. Since the beginning of the year, we have added a number of additional contract manufacturing sources, resulting in a significant increase in total production capacity. This should enable us to ship a much greater volume of the *Cabbage Patch Kids* product line in the second quarter and the remainder of the year.

Within the next few weeks, we will begin shipments of our new *Cabbage Patch Kids* product line, including the infant *Cabbage Patch Kids Preemies*, the 'Koosas or pets, the 5" collectible *Cabbage Patch Kids Pin-Ups* and a variety of doll clothing and accessories.

First quarter sales of ride-on vehicles, wading pools, inflatable pools and water toys, and children's backyard play and furniture products were substantially greater than those for the year ago quarter. We expect strong continuing demand for these outdoor products during the second quarter.

First quarter sales of *ColecoVision* were substantial, although much less than those for the year ago quarter. Since the beginning of the year, we have shipped a number of licensed arcade and other popular titles, such as *War Games*, *Burger Time* and the *Cabbage Patch Kids*. Scheduled for second quarter introduction are six additional titles, including *Super Action Football* and *Tarzan*. We will continue to support *ColecoVision* with high quality entertainment and educational software, all of which can be used with *ADAM* as well. Our worldwide installed base of over two million *ColecoVision* units should offer excellent sales potential for the *ADAM Family Computer Module*, which enables the *ColecoVision* owner to upgrade to a complete *ADAM* computer.

In recent months, we have significantly reduced the level of employment at our upstate New York manufacturing facilities. This reduction in employment was the result of automation

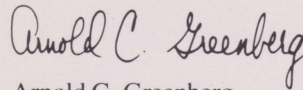
and other productivity improvements in the manufacture of *ADAM*, the gradual elimination of second and third shift *ADAM* production and a planned reduction in the rate of second quarter *ADAM* production in anticipation of the normal seasonal slow-down in consumer demand.

During the second quarter, we will begin shipping a variety of *ADAM* software, including programs for home information management, education, entertainment, and languages and programming aids. A broad variety of useful software for *ADAM*, developed by both major independent producers and Coleco itself, will be increasingly available as the year goes on.

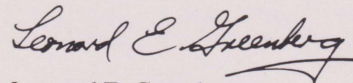
At the Consumer Electronics Show in June, we will demonstrate previously announced *ADAM* hardware peripherals, including a 5 1/4" disk drive, the *ADAMLink* telephone modem and the 64K RAM memory expander, all of which are scheduled for shipment during the second half year.

Coleco remains firmly committed to the *ADAM* program. *ADAM's* intrinsic value, utility and ease of operation should enable it to compete successfully in the home computer market. A trade support program and an aggressive consumer advertising and promotion campaign are being developed to encourage continued favorable response to *ADAM* throughout the remainder of the year.

We expect that second quarter sales will be comparable to those for the first quarter. This sales performance and the increasing effect of tightened spending and budgetary controls should enable us to achieve continuing improvement in both profitability and liquidity.



Arnold C. Greenberg  
President and  
Chief Executive Officer



Leonard E. Greenberg  
Chairman

April 17, 1984



## CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended	
	March 31 1984	April 2 1983
	(In Thousands)	
Net Sales	<u>\$186,104</u>	<u>\$180,170</u>
Costs and Expenses:		
Cost of Goods Sold	127,711	101,596
Selling and Administrative Expenses	44,879	45,340
Interest Expense	<u>8,378</u>	<u>3,211</u>
	<u>180,968</u>	<u>150,147</u>
Earnings Before Income Taxes	5,136	30,023
Income Tax Provision	<u>695</u>	<u>13,813</u>
Net Earnings	<u>\$ 4,441</u>	<u>\$ 16,210</u>
Net Earnings Per Share	<u>\$ .27</u>	<u>\$ 1.01</u>
Average Shares Outstanding	16,309	16,049

## CONSOLIDATED BALANCE SHEET SUMMARY

(March 31, 1984 and April 2, 1983 are Unaudited)

	March 31 1984	Dec. 31 1983	April 2 1983
	(In Thousands)		
<b>Assets:</b>			
Accounts Receivable	\$200,787	\$158,022	\$145,775
Inventories	144,470	164,664	95,741
Income Tax Refund (1)	35,281	40,200	
Other Current Assets	<u>40,552</u>	<u>44,204</u>	<u>31,921</u>
Total Current Assets	421,090	407,090	273,437
Property, Plant and Equipment (Net)	58,841	58,183	34,118
Other Assets	<u>11,064</u>	<u>12,259</u>	<u>2,959</u>
Total Assets	<u>\$490,995</u>	<u>\$477,532</u>	<u>\$310,514</u>
<b>Liabilities and Stockholders' Equity:</b>			
Notes Payable	\$185,805	\$166,420	\$ 32,668
Accounts Payable	68,393	81,385	46,301
Other Current Liabilities	<u>54,150</u>	<u>51,508</u>	<u>50,071</u>
Total Current Liabilities	308,348	299,313	129,040
Subordinated Debentures	52,380	52,287	52,240
Long-Term Debt	26,461	26,485	16,629
Other Liabilities	<u>10,016</u>	<u>10,028</u>	<u>3,075</u>
Stockholders' Equity	<u>93,790</u>	<u>89,419</u>	<u>109,530</u>
Total Liabilities and Equity	<u>\$490,995</u>	<u>\$477,532</u>	<u>\$310,514</u>

(1) On April 6, 1984 the Company received \$31,300,000 which was used to reduce notes payable.









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