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**Coleco Industries, Inc.
Interim Report**

June 30, 1984

COLECO



To Our Stockholders:

Sales for the three months ended June 30, 1984 set a second quarter record, totaling \$166.6 million, compared with sales of \$126.3 million for the year ago quarter. Earnings of \$5.1 million or \$.32 per share were lower than earnings of \$9.1 million or \$.56 per share for the comparable 1983 quarter.

Sales for the first half year totaled \$352.7 million, compared with 1983 first half sales of \$306.5 million. Earnings totaled \$9.6 million or \$.59 per share, compared with \$25.3 million or \$1.57 per share for the year ago period.

This strong sales performance was due primarily to the continuing success of the *Cabbage Patch Kids* product line. Approximately \$150 million in *Cabbage Patch Kids* products were shipped during the first six months of 1984, more than twice the amount for all of 1983. In addition to the 16" *Cabbage Patch Kids* dolls introduced last year, the 1984 product line includes *Preemies* (14" infant dolls), *Koosas* (pets), 5" collectible *Pin-Ups*, a large variety of *Kids* clothing and eight play accessories.

Sales of electronic products were significantly lower than those for the second quarter and first half of 1983, primarily due to decreased sales of the *ColecoVision* line and software for other video game systems. Ride-on vehicles, wading and splasher pools, children's backyard play and furniture items and other toys and games generated sales substantially greater than those for the comparable year ago periods.

During the second quarter, Coleco shipped seven new entertainment software titles for *ColecoVision*, including *Super Action Football*, *Tarzan* and *Star Trek*. Delivery has also begun of early learning software for *ColecoVision*, including the *Smurf Paint 'N Play* and *Telly Turtle* programs. The merchandising of *ColecoVision* both as an entertainment and an educational system, as well as the modular way to begin ownership of a complete *ADAM Family Computer System*, should generate increased sales of *ColecoVision* and related software products during the second half year.

To further stimulate *ColecoVision* sales, the Company recently initiated a *ColecoVision/Cabbage Patch Kids* promotion, through which consumers purchasing *ColecoVision* and any *ColecoVision* cartridge made by Coleco will receive a *Cabbage Patch Kids* doll as a bonus.

Coleco began shipments of a wide variety of software programs for *ADAM* during the second quarter, including *SmartLogo*, an enhanced version of the popular programming language; early learning software such as *Smurf Paint 'N Play* and *Telly Turtle*; educational programs including Electronic Flashcard Maker and three Flash Facts packages; home information management programs including *SmartFiler*, *Recipe Filer* and *SmartLetters & Forms*, and a wide variety of popular licensed entertainment titles.

An increasing number of *ADAM* software programs will become available during the second half year from Coleco and other major software publishers. *ADAM* hardware peripherals, including a 5¼" disk drive, the *ADAMLink* telephone modem and the 64K memory expander, are scheduled for shipment during the third quarter.

Coleco has begun a new advertising campaign for the *ADAM Family Computer System* which stresses the reliability of *ADAM* and the increasing availability of *ADAM* software. Now reaching consumers through newspaper ads and radio commercials in a selected number of major markets, the promotion also offers a free *ADAM* Home Software Library of 32 programs to new *ADAM* purchasers.

We believe that *ADAM's* usefulness, ease of operation and intrinsic value should enable it to compete successfully in the home computer market. We will continue to support *ADAM* by expanding our trade orientation program, commencing an intensive TV advertising campaign in August and launching an unusual consumer program to encourage the purchase of *ADAM*.

We further strengthened the management of our consumer electronic group with the appointment earlier this month of Robert P. Baker as Vice President—Electronic Manufacturing at our upstate New York Computer Center. Baker comes to the Company from Apple Computer where he served as Manufacturing Operations Manager with responsibility for all domestic production of the APPLE IIe and APPLE IIc computers.

Coleco entered the third quarter with an unshipped order backlog in excess of \$350 million for the *Cabbage Patch Kids* product line. We expect that overall sales momentum will increase during the second half year due to the additional expansion of production capacity for the *Cabbage Patch Kids* product line and the anticipated positive results of our *ColecoVision* and *ADAM* promotions. This should enable the Company to achieve continuing improvement in both profitability and liquidity.

Arnold C. Greenberg
President and
Chief Executive Officer

Leonard E. Greenberg
Chairman

July 19, 1984

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30 1984	July 2 1983	June 30 1984	July 2 1983
	(In Thousands)			
Net Sales	<u>\$166,606</u>	<u>\$126,338</u>	<u>\$352,710</u>	<u>\$306,508</u>
Costs and Expenses:				
Cost of Goods Sold	<u>109,523</u>	<u>65,933</u>	<u>237,234</u>	<u>167,529</u>
Selling and Administrative Expenses	<u>38,849</u>	<u>39,944</u>	<u>83,728</u>	<u>85,284</u>
Interest Expense	<u>9,276</u>	<u>4,327</u>	<u>17,654</u>	<u>7,538</u>
	<u>157,648</u>	<u>110,204</u>	<u>338,616</u>	<u>260,351</u>
Earnings Before Income Taxes	<u>8,958</u>	<u>16,134</u>	<u>14,094</u>	<u>46,157</u>
Income Tax Provision	<u>3,820</u>	<u>7,069</u>	<u>4,515</u>	<u>20,882</u>
Net Earnings	<u>\$ 5,138</u>	<u>\$ 9,065</u>	<u>\$ 9,579</u>	<u>\$ 25,275</u>
Net Earnings Per Share—Primary	<u>\$.32</u>	<u>\$.56</u>	<u>\$.59</u>	<u>\$ 1.57</u>
—Fully Diluted	<u>\$.31</u>	<u>\$.56</u>	<u>\$.59</u>	<u>\$ 1.57</u>

CONSOLIDATED BALANCE SHEET SUMMARY

(June 30, 1984 and July 2, 1983 are Unaudited)

	June 30 1984	Dec. 31 1983	July 2 1983
	(In Thousands)		
Assets:			
Accounts Receivable	<u>\$211,747</u>	<u>\$158,022</u>	<u>\$111,146</u>
Inventories	<u>161,566</u>	<u>164,664</u>	<u>150,704</u>
Income Tax Refund	<u>863</u>	<u>40,200</u>	<u></u>
Other Current Assets	<u>43,891</u>	<u>44,204</u>	<u>41,870</u>
Total Current Assets	<u>418,067</u>	<u>407,090</u>	<u>303,720</u>
Property, Plant and Equipment (Net)	<u>60,790</u>	<u>58,183</u>	<u>40,598</u>
Other Assets	<u>13,040</u>	<u>12,259</u>	<u>2,992</u>
Total Assets	<u>\$491,897</u>	<u>\$477,532</u>	<u>\$347,310</u>
Liabilities and Stockholders' Equity:			
Notes Payable	<u>\$154,730</u>	<u>\$166,420</u>	<u>\$ 86,150</u>
Accounts Payable	<u>54,818</u>	<u>81,385</u>	<u>27,018</u>
Other Current Liabilities	<u>55,552</u>	<u>51,508</u>	<u>40,838</u>
Total Current Liabilities	<u>265,100</u>	<u>299,313</u>	<u>154,006</u>
Long-Term Debt	<u>25,590</u>	<u>26,485</u>	<u>16,841</u>
Other Liabilities	<u>10,001</u>	<u>10,028</u>	<u>3,081</u>
Subordinated Debentures	<u>52,322</u>	<u>52,287</u>	<u>52,255</u>
Convertible Subordinated Debentures	<u>39,686</u>	<u></u>	<u></u>
Stockholders' Equity	<u>99,198</u>	<u>89,419</u>	<u>121,127</u>
Total Liabilities and Equity	<u>\$491,897</u>	<u>\$477,532</u>	<u>\$347,310</u>





**Coleco Industries, Inc.
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