



Interim Report
March 30, 1985

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Coleco
Industries,
Inc.



To Our Stockholders:

Sales for the quarter ended March 30, 1985 were greater than those for any prior first quarter, totaling \$194.1 million compared with \$186.1 million for the first quarter of 1984.

Earnings were \$19.4 million or \$1.18 per share, excluding the extraordinary \$8 million credit resulting from tax loss carryforwards, and net earnings were \$27.4 million or \$1.67 per share, including the credit. Net earnings for the year ago quarter were \$4.4 million or \$.27 per share.

Coleco's balance sheet also improved considerably during the first quarter. Short-term bank debt was \$64.4 million, a reduction of approximately \$40 million since December 31, 1984 and more than \$120 million lower than at March 31, 1984. Working capital increased by \$29.7 million during the first quarter, and stockholders' equity increased by \$27.5 million.

The strong first quarter sales performance resulted primarily from the continuing success of the *Cabbage Patch Kids* product line. In excess of \$150 million in *Cabbage Patch Kids* products were shipped in the first quarter, more than twice the amount shipped in the first quarter of 1984.

Last month Coleco began shipments of its new, collectible *Cabbage Patch Kids* Playmates, and consumer response has already been very positive. During the second quarter Coleco plans to begin shipments of other new *Cabbage Patch Kids* products, including limited edition Twins, World Travelers, collectible 'Koosas Playmates and Playmates accessories, "purebred" Show Ponies with registration certificates and a variety of new *Cabbage Patch Kids* play accessories and clothing.

Trade reaction to the expanded *Cabbage Patch Kids* line continues to be excellent, and major customers have indicated that they expect to do even more *Cabbage Patch Kids* business this year than last.

Coleco has just begun shipments of its new *Sectaurs* action figure line, which was successfully introduced at the Canadian and American International Toy Fairs in February. *Sectaurs* combine an unusual science fiction concept with a unique "hands-in-play" feature that allows the child to totally control the figure's movement. A major advertising and promotional campaign is starting in early May and will continue throughout the year. The *Sectaurs* have already been featured in the first of a series of comic books published by Marvel Comics Group and are scheduled for a two hour, live action TV special this fall.

The anticipated strong sales performance of Coleco's toy line and the effect of tightened budgetary controls should enable the Company to continue its vigorous earnings recovery and further strengthen its financial condition.

Arnold C. Greenberg
President and
Chief Executive Officer

Leonard E. Greenberg
Chairman

April 18, 1985

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

Three Months Ended
March 30 **March 31**
1985 1984

(In Thousands)

Net Sales	<u>\$194,130</u>	<u>\$186,104</u>
Costs and Expenses:		
Cost of Goods Sold	105,110	127,711
Selling and Administrative Expenses	52,546	44,879
Interest Expense	<u>8,057</u>	<u>8,378</u>
	<u>165,713</u>	<u>180,968</u>
Earnings Before Income Taxes	28,417	5,136
Income Tax Provision	<u>9,044</u>	<u>695</u>
Earnings Before Extraordinary Credit	19,373	4,441
Utilization of Tax Loss Carryforward	<u>8,024</u>	<u> </u>
Net Earnings	<u>\$ 27,397</u>	<u>\$ 4,441</u>
Per Share Results:		
Primary:		
Earnings Before Extraordinary Credit	\$ 1.18	\$.27
Utilization of Tax Loss Carryforward	<u>.49</u>	<u> </u>
Net Earnings	<u>\$ 1.67</u>	<u>\$.27</u>
Fully Diluted:		
Earnings Before Extraordinary Credit	\$ 1.00	\$.27
Utilization of Tax Loss Carryforward	<u>.42</u>	<u> </u>
Net Earnings	<u>\$ 1.42</u>	<u>\$.27</u>
Average Shares Outstanding:		
Primary	16,384	16,309
Fully Diluted	20,405	16,309

CONSOLIDATED BALANCE SHEET SUMMARY

(March 30, 1985 and March 31, 1984 are Unaudited)

March 30 **December 31** **March 31**
1985 1984 1984
(In Thousands)

Assets:

Accounts Receivable	\$167,802	\$206,712	\$200,787
Inventories	83,861	86,474	144,470
Other Current Assets	<u>32,310</u>	<u>32,222</u>	<u>75,833</u>
Total Current Assets	283,973	325,408	421,090
Property, Plant and Equipment (Net)	49,221	49,947	58,841
Other Assets	<u>11,099</u>	<u>13,649</u>	<u>11,064</u>
Total Assets	<u>\$344,293</u>	<u>\$389,004</u>	<u>\$490,995</u>

Liabilities and Stockholders' Equity:

Notes Payable	\$ 64,382	\$106,047	\$185,805
Accounts Payable	50,721	86,358	68,393
Other Current Liabilities	<u>57,896</u>	<u>51,693</u>	<u>54,150</u>
Total Current Liabilities	172,999	244,098	308,348
Long-Term Debt	26,972	28,594	26,461
Deferred Liabilities	1,100	700	10,016
Subordinated Debentures	52,380	52,359	52,380
Convertible Subordinated Debentures	52,850	52,751	
Stockholders' Equity	<u>37,992</u>	<u>10,502</u>	<u>93,790</u>
Total Liabilities and Equity	<u>\$344,293</u>	<u>\$389,004</u>	<u>\$490,995</u>



THE LEGEND
MARCHES ON



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