



Interim Report
June 29, 1985

2

**Coleco
Industries,
Inc.**



To Our Stockholders:

Sales and earnings for the quarter ended June 29, 1985 were greater than those for any prior second quarter. Sales totaled \$187.9 million, compared with sales of \$166.6 million for the year ago quarter. Earnings totaled \$17.5 million or \$1.06 per share, excluding the extraordinary \$7.1 million credit resulting from utilization of tax loss carryforwards, and net earnings were \$24.6 million or \$1.49 per share, including the credit. Net earnings for the year ago quarter were \$5.1 million or \$.32 per share. Second quarter 1985 results include a non-recurring selling and administrative charge of \$8.3 million resulting from both a settlement of litigation and other royalty related commitments.

Sales for the first half year totaled \$382.0 million, compared with sales of \$352.7 million for the first half of 1984. Earnings were \$36.9 million or \$2.24 per share, excluding the extraordinary \$15.1 million credit resulting from tax loss carryforwards, and net earnings were \$52.0 million or \$3.16 per share, including the credit. Net earnings for the first half of 1984 were \$9.6 million or \$.59 per share.

Gross profit for the first half of 1985 was 49%, compared with 33% for the year ago period. This significant change resulted from the fact that over 90% of sales for the current period were toys, primarily *Cabbage Patch Kids* products, compared with approximately 65% for the first half of 1984.

Coleco's financial condition continued to show substantial improvement during the second quarter. All of the \$95.5 million of U.S. short-term bank debt outstanding at December 31, 1984 was repaid by June 29, and short-term Canadian bank debt of \$14 million was more than offset by \$18.7 million in cash and equivalents on hand at the close of the quarter. Working capital was \$165.2 million, more than twice the amount at December 31, 1984. The Company's current ratio improved to 2.3 to 1 from the year-end 1984 ratio of 1.3 to 1, reflecting the fact that total current liabilities at the end of June were approximately half the year-end 1984 level. Stockholders' equity increased to \$64 million at the end of the second quarter, another sign that the Company's financial condition has strengthened considerably.

Shipments of additional new *Cabbage Patch Kids* products are beginning this month, including the limited edition *Cabbage Patch Kids* Twins, World Travelers and Purebred Show Ponies. Production and shipments of the new *Sectaurs* action figure line have been increased to accommodate national distribution in the United States and Canada.

The most recent TRSTS (Toy Retail Sales Tracking Service) report, a monthly audit of sales and inventory levels in approximately 1,200 major chain, discount and department stores, indicates that Coleco continues to lead the toy industry in sales dollars through the first five months of the year. Within the TRSTS universe of reporting stores, Coleco's products accounted for more than 26% of industry sales for the month of May, with the *Cabbage Patch Kids* representing the largest portion of those sales.

Orders received for *Cabbage Patch Kids* products since the beginning of the year are in excess of \$600 million, and shipments through the first half year were approximately \$300 million. These encouraging statistics, together with the continuation of extraordinary consumer demand, lead us to believe that sales of Coleco's *Cabbage Patch Kids* products in 1985 will exceed last year's level of \$540 million.

Steps are being taken to broaden significantly the foundation of Coleco's toy business through the further development of existing product lines and the introduction of major new product concepts in 1986 and thereafter. Coleco's large unshipped order backlog and the favorable consumer acceptance being received by our products should enable the vigorous earnings recovery of the first half to continue through the balance of the year, resulting in a further strengthening of the Company's financial condition.

Arnold C. Greenberg
Chairman and
Chief Executive Officer

J. Brian Clarke
President and
Chief Operating Officer

July 18, 1985

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 29 1985	June 30 1984	June 29 1985	June 30 1984
	(In Thousands)			
Net Sales	<u>\$187,918</u>	<u>\$166,606</u>	<u>\$382,048</u>	<u>\$352,710</u>
Cost and Expenses:				
Cost of Goods Sold	<u>89,507</u>	<u>109,523</u>	<u>194,617</u>	<u>237,234</u>
Selling and Administrative Expenses	<u>65,712</u>	<u>38,849</u>	<u>118,258</u>	<u>83,728</u>
Interest Expense	<u>6,826</u>	<u>9,276</u>	<u>14,883</u>	<u>17,654</u>
	<u>162,045</u>	<u>157,648</u>	<u>327,758</u>	<u>338,616</u>
Earnings Before Income Taxes	<u>25,873</u>	<u>8,958</u>	<u>54,290</u>	<u>14,094</u>
Income Tax Provision	<u>8,390</u>	<u>3,820</u>	<u>17,434</u>	<u>4,515</u>
Earnings Before Extraordinary Credit	<u>17,483</u>	<u>5,138</u>	<u>36,856</u>	<u>9,579</u>
Utilization of Tax Loss Carryforwards	<u>7,097</u>		<u>15,121</u>	
Net Earnings	<u>\$ 24,580</u>	<u>\$ 5,138</u>	<u>\$ 51,977</u>	<u>\$ 9,579</u>
Per Share Results:				
Primary:				
Earnings Before Extraordinary Credit	<u>\$ 1.06</u>	<u>\$.32</u>	<u>\$ 2.24</u>	<u>\$.59</u>
Utilization of Tax Loss Carryforwards	<u>.43</u>		<u>.92</u>	
Net Earnings	<u>\$ 1.49</u>	<u>\$.32</u>	<u>\$ 3.16</u>	<u>\$.59</u>
Fully Diluted:				
Earnings Before Extraordinary Credit	<u>\$.88</u>	<u>\$.31</u>	<u>\$ 1.88</u>	<u>\$.59</u>
Utilization of Tax Loss Carryforwards	<u>.36</u>		<u>.78</u>	
Net Earnings	<u>\$ 1.24</u>	<u>\$.31</u>	<u>\$ 2.66</u>	<u>\$.59</u>
Average Shares Outstanding:				
Primary	<u>16,487</u>	<u>16,295</u>	<u>16,436</u>	<u>16,302</u>
Fully Diluted	<u>21,096</u>	<u>17,775</u>	<u>20,751</u>	<u>17,042</u>

CONSOLIDATED BALANCE SHEET SUMMARY

(June 29, 1985 and June 30, 1984 are Unaudited)

	June 29 1985	December 31 1984	June 30 1984
	(In Thousands)		
Assets:			
Cash and Equivalents	<u>\$ 18,727</u>	<u>\$ 1,506</u>	<u>\$ 661</u>
Accounts Receivable	<u>164,953</u>	<u>206,712</u>	<u>211,747</u>
Inventories	<u>80,649</u>	<u>86,474</u>	<u>161,566</u>
Other Current Assets	<u>29,498</u>	<u>30,716</u>	<u>44,093</u>
Total Current Assets	<u>293,827</u>	<u>325,408</u>	<u>418,067</u>
Property, Plant and Equipment (Net)	<u>48,286</u>	<u>49,947</u>	<u>60,790</u>
Other Assets	<u>10,993</u>	<u>13,649</u>	<u>13,040</u>
Total Assets	<u>\$353,106</u>	<u>\$389,004</u>	<u>\$491,897</u>
Liabilities and Stockholders' Equity:			
Notes Payable	<u>\$ 14,001</u>	<u>\$106,047</u>	<u>\$154,730</u>
Accounts Payable	<u>48,250</u>	<u>86,358</u>	<u>54,818</u>
Other Current Liabilities	<u>66,386</u>	<u>51,693</u>	<u>55,552</u>
Total Current Liabilities	<u>128,637</u>	<u>244,098</u>	<u>265,100</u>
Long-Term Debt	<u>24,671</u>	<u>28,594</u>	<u>25,590</u>
Deferred Liabilities	<u>1,150</u>	<u>700</u>	<u>10,001</u>
Subordinated Debentures	<u>52,401</u>	<u>52,359</u>	<u>52,322</u>
Convertible Subordinated Debentures	<u>82,115</u>	<u>52,751</u>	<u>39,686</u>
Stockholders' Equity	<u>64,132</u>	<u>10,502</u>	<u>99,198</u>
Total Liabilities and Equity	<u>\$353,106</u>	<u>\$389,004</u>	<u>\$491,897</u>

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