UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1998

Commission file number 1-8897

CONSOLIDATED STORES CORPORATION

A Delaware Corporation
IRS No. 06-1119097
1105 North Market Street, Suite 1300
P.O. Box 8985
Wilmington, Delaware 19899
(302) 478-4896

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each Exchange on which registered |
|---|---|
| Common Stock $.01 par value | New York Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange |

Indicate whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in a definitive proxy or information statement incorporated by reference in Part III of this FORM 10-K or any amendment to this FORM 10-K [ ]

The aggregate market value (based on the closing price on the New York Stock Exchange) of the Common Stock of the Registrant held by non affiliates of the Registrant was $4,711,479,611 on March 27, 1998. For purposes of this response, executive officers and directors are deemed to be the affiliates of the Registrant and the holdings by non affiliates was computed as 107,079,082 shares.

The number of shares of Common Stock $.01 par value per share, outstanding as of March 27, 1998, was 107,378,774 and there were no shares of Non-Voting Common Stock, $.01 par value per share outstanding at that date.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement are incorporated by reference into Part III.

FORM 10-K

ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JANUARY 31, 1998

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# PART I

## ITEM 1 BUSINESS

### THE COMPANY

Consolidated Stores Corporation was incorporated in Delaware in 1983. Its principal executive offices are located at 300 Phillipi Road, P.O. Box 28512, Columbus, Ohio 43228-0512, and its telephone number is (614) 278-6800. All references herein to the "Company" are to Consolidated Stores Corporation and its subsidiaries.

The Company is a value retailer focused on closeout merchandise and toys seeking to provide the budget conscious consumer with a broad range of quality, name-brand products at exceptional values. As of January 31, 1998, the Company operated 2,274 stores located in all 50 states and Puerto Rico and is the nation's largest closeout retailer and largest mall based toy retailer. The Company operated 1,025 retail closeout stores, primarily under the names Odd Lots, Big Lots, Mac Frugal's Bargains Close-outs, and Pic `N' Save (collectively "Closeout Stores") and 1,249 retail toy and closeout toy stores primarily under the names KB Toys, KB Toy Works, and KB Toy Outlet (collectively "Toy Stores").

The Company's goal is to build upon its leadership position in closeout retailing, a growing segment of the retailing industry, and toy retailing by expanding its market presence in both existing and new markets. The Company believes that the combination of its strengths in merchandising, purchasing, site selection, distribution and cost-containment has made it a low-cost, value retailer well-positioned for future growth.

### BUSINESS GROUPS

The Company's principal businesses range across two retail industry groups; closeouts and toys. Sales and cost of sales during the last six years for each of the Company's business groups appear in Item 6 "Selected Financial Data" included herein. The percent of net sales to total net sales by business group and gross profit as a percent to net sales by business group for each of the past three fiscal years is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" also included herein.

Financial information by business group, containing information on revenues, operating profit, depreciation and amortization, and capital expenditures for each of the last three fiscal years and identifiable assets for each of the last two fiscal years, appears in the "Notes to Consolidated Financial Statements - Business Group Information" included herein.

### INDUSTRY OVERVIEW

Closeout retailers provide a valuable service to manufacturers by purchasing excess product that generally result from production overruns, package changes, discontinued products and returns. Closeout retailers also take advantage of generally low prices in the off-season by buying and warehousing seasonal merchandise for future sale. As a result of these lower costs of goods sold, closeout retailers can offer merchandise at prices significantly lower than those offered by traditional retailers.

Recent trends in the retail industry are favorable to closeout retailers. These trends include retailer consolidations and just-in-time inventory processes, which have resulted in a shift of inventory risk from retailers to manufacturers. In addition, in order to maintain their market share in an increasingly competitive environment, manufacturers are introducing new products and new packaging on a more frequent basis. The Company believes that these trends have helped make closeout retailers an integral part of manufacturers' overall distribution process. As a result, manufacturers are increasingly looking for larger, more sophisticated closeout retailers, such as the Company, that can purchase larger quantities of merchandise and can control the distribution and advertising of specific products.

## RETAIL OPERATIONS

CLOSEOUT STORES. The Company has been able to operate profitably a large number of Closeout Stores in relatively close proximity in markets with favorable demographics and suitable store sites. For example, the Company operates 281 of the total 1,025 Closeout Stores in Ohio and California. Management believes that there are substantial opportunities to increase store counts in existing markets.

The Company's Closeout Stores carry a wide variety of name-brand consumer products, including food items, health and beauty aids, electronics, housewares, tools, paint, lawn and garden, hardware, sporting goods, toys and softlines. The Closeout Stores also sell factory reconditioned products and lower-priced, private-label merchandise in selected product categories. Certain core categories of merchandise are carried on a continual basis, although the specific name-brands offered may change frequently. The Company also supplements its broad selection of consumer products in core product categories with seasonal goods and holiday merchandise. Closeout Stores are located predominantly in strip shopping centers located in the southwestern, midwestern, southern and mid-Atlantic regions of the United States. Because of their low operating costs, the Closeout Stores are generally profitable within their first full year of operation.

TOY STORES. The Company has been in the toy retailing business since its inception and has operated stand-alone toy stores since 1994. As discussed below (see "Business Combinations and Discontinued Operation") the acquisition of Kay-Bee Center, Inc. (KB) enabled the Company to expand significantly its retail toy store business at a relatively low cost. As a result of the acquisition, the Company has more than doubled its purchases of closeout toys and became the largest purchaser of closeout toys in the United States. The Company believes that this combined purchasing power has enhanced its ability to source high-quality closeout toys for all of its stores at competitive prices.

The Toy Stores offer a broad variety of closeout toys, as well as currently promoted retail toys (known as "in-line toys") and traditional toy merchandise. The Company's Toy Stores are located in enclosed shopping malls, outlet malls, and strip shopping centers. The Company has a large presence in enclosed shopping malls with 930 Toy Stores where the Company is usually the exclusive toy store. The balance of the Toy Stores are generally a smaller strip shopping center store striving to appeal to customers seeking value and the convenience not offered by toy superstores. Enclosed mall and strip shopping center Toy Stores carry a combination of in-line toys and close-out merchandise. Toy Stores located in outlet malls carry primarily closeout toys.

The Company also operates temporary stores during the holiday selling season which are open for approximately six to eight weeks and carry primarily closeout merchandise. These temporary stores provide increased sales and profits during the peak holiday selling season by utilizing vacant store space obtained on favorable terms.

## BUSINESS COMBINATIONS AND DISCONTINUED OPERATION

In the last two fiscal years, the Company has completed the following business combinations which have significantly expanded its presence in closeout and toy retailing.

In January, 1998, Consolidated Stores Corporation exchanged 23.4 million shares of its common stock for all of the outstanding stock of Mac Frugal's Bargains Closeouts, Inc. (Mac Frugal's). The merger increased the number of retail stores operated by the Company by approximately 20%, and significantly expanded the Company's retail sale of close-out merchandise, which, as a category, is highly competitive, very seasonal and heavily dependent on the ability to select and purchase quality merchandise at attractive prices. Additionally, most of the Mac Frugal's stores are located in the southwestern United States, a geographic area in which Consolidated Stores had not previously operated retail closeout stores. Historically, the Company focused its closeout store operations in the Midwestern, Southern and Mid-Atlantic regions of the United States. This business combination was accounted for as a pooling of interest and, accordingly, all financial statements have been restated to include the results of Mac Frugal's for all periods presented.

In May 1996, the Company acquired KB (including 1,042 retail toy stores) from Melville Corporation for an initial purchase price of approximately $315 million (subject to post-closing adjustments), consisting of $215 million in cash and $100 million of subordinated notes. Post-closing adjustments recorded in the third quarter 1996, reduced the cash component of the purchase price by $29.7 million to $185.3 million. This acquisition was accounted for as a purchase with the results of KB included in the consolidated financial statements from the acquisition date.

In the fourth quarter of 1996 the Company adopted a plan to close its single price point and small specialty stores operating under the names of All For One and ITZADEAL!. Accordingly, the operating results for this business are reported as a discontinued operation and prior years operating results have been restated.

For additional information concerning the merger, acquisition, and discontinued operation described above, see "Notes to Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company continually evaluates possible candidates for acquisition and intends to continue to seek opportunities to expand its retail businesses.

COMPETITIVE CONDITIONS

The retail industry is highly competitive. The Company's Closeout Stores compete with discount stores (such as Wal-Mart(R), KMart(R) and Target(R)), deep discount drugstore chains and other value-oriented specialty retailers. The Company's Toy Stores compete directly with local and regional enclosed shopping mall-based toy retailers, destination toy stores (such as Toys "R" Us(R)) and discount retailers with toy departments and indirectly with enclosed shopping mall-based retailers such as concept stores and theme-based stores that feature toys or toy-related merchandise. Certain of the Company's competitors have greater financial, distribution, marketing and other resources than the Company.

The Company has no continuing contracts for the purchase of closeout merchandise and relies on buying opportunities from both existing and new sources, for which it competes with other closeout merchandisers and wholesalers. The Company believes that its management has long standing relationships with its suppliers and is competitively positioned to continue to seek new sources in order to maintain an adequate continuing supply of quality merchandise at attractive prices.

## SEASONALITY

The Company has experienced seasonality, with a significant percentage of its net sales and income being realized in the fourth fiscal quarter. Additionally, quarterly results can be affected by the timing of store openings and closings, the amount of net sales contributed by new and existing stores and the timing of certain holidays. Furthermore, in anticipation of increased sales activity during the fourth fiscal quarter, the Company purchases substantial amounts of inventory during the second and third fiscal quarters and hires a significant number of temporary employees to bolster its stores staffing during the fourth fiscal quarter.

The seasonality of the Company's businesses also influences the Company's demand for seasonal borrowings. The Company has traditionally drawn upon its seasonal credit lines in the first three fiscal quarters and substantially repaid the borrowings during the fourth fiscal quarter.

## BUSINESS STRATEGY

The Company's goal is to increase net sales and earnings and enhance shareholder value through (i) new store expansion, (ii) comparable store sales increases, (iii) realization of acquisition synergies and other cost savings programs and (iv) prudent and selective acquisitions. Accordingly, a business strategy has been implemented of pursuing growth by capitalizing on the Company's following competitive strengths: (a) the ability to offer name-brand products at discounted prices; (b) its purchasing expertise and strong buying relationships; (c) the ability to lease low cost store sites in strip shopping centers, enclosed shopping malls and outlet malls on favorable terms; (d) the ability to efficiently warehouse and distribute large quantities of merchandise; and (e) its focus on cost control.

OFFERING NAME-BRAND MERCHANDISE AT DEEPLY DISCOUNTED PRICES. Primarily as a result of its strong supplier relationships and purchasing expertise, the Company offers substantial everyday savings on a wide variety of name-brand consumer products. The Company's business relies upon its ability to select and purchase quality merchandise at attractive prices in order to maintain a balance of product in certain core merchandising categories along with a changing mix of merchandise. The Company purchases large quantities of name-brand closeout merchandise from manufacturers' excess inventories, which generally result from production overruns, package changes, discontinued products and returns. The Company also takes advantage of the availability of factory reconditioned products and lower priced, private-label merchandise in selected product categories in order to provide additional value to its customers. In addition, the Company supplements its broad offering of consumer items in core product categories with a changing mix of new merchandise, including seasonal goods, such as holiday and back-to-school merchandise.

PURCHASING EXPERTISE AND STRONG BUYING RELATIONSHIPS. An integral part of the Company's business is the sourcing and purchasing of quality name-brand merchandise directly from manufacturers and other vendors at prices substantially below those paid by conventional retailers. The Company has built strong relationships with many name-brand manufacturers and has capitalized on its purchasing power in the closeout and toy marketplace in order to source merchandise that provides exceptional value to customers. As the largest retailer of closeout merchandise and closeout toys in the United States, the Company has the ability to purchase all of a manufacturer's closeout merchandise in specific product categories and to control distribution in accordance with vendor instructions, thus providing a high level of service and convenience to these manufacturers. Also, the success of the Company's toy business depends in part upon its ability to purchase in-line toys at competitive prices and on competitive terms. The Company supplements its traditional name-brand closeout purchases with a limited amount of program buys and private-label merchandise. The Company expects its purchasing power will continue to enhance its ability to source high quality closeout merchandise and closeout and in-line toys for all of its stores at competitive prices.

The Company has a seasoned buying team with extensive purchasing experience, which has enabled the Company to develop successful long-term relationships with many of the largest and most recognized consumer-product manufacturers in the United States. As a result of these relationships and the Company's experience and reputation in the closeout industry, many manufacturers offer purchase opportunities to the Company prior to attempting to dispose of their merchandise through other channels.

The Company's merchandise is purchased from more than 3,000 foreign and domestic suppliers which provide the Company with multiple sources for each product category. In fiscal 1997, the Company's top ten vendors accounted for approximately 20% of total purchases with no one vendor accounting for more than 4%.

The Company purchases approximately 20% of its products directly from overseas suppliers, and a material amount of its domestically purchased merchandise is also manufactured abroad. As a result, a significant portion of the Company's merchandise supply is subject to certain risks including increased import duties and more restrictive quotas, loss of "most favored nation" trading status, currency fluctuations, work stoppages, transportation delays, economic uncertainties including inflation, foreign government regulations, political unrest and trade restrictions, including retaliation by the United States against foreign practices. While the Company believes that alternative domestic and foreign sources could supply merchandise to the Company, an interruption or delay in supply from China or the Company's other foreign sources, or the imposition of additional duties, taxes or other charges on these imports, could have a material adverse effect on the Company's results of operations and financial condition.

LOW COST SITE SELECTION. The Company has developed a real estate strategy for its Closeout Stores emphasizing smaller-sized stores in strip shopping center locations in mid-sized cities and small towns. The Company believes its ability to obtain these sites on attractive terms has been enhanced by the ongoing consolidation in the retailing industry and the migration of many retailers to larger-sized stores. The Company seeks to enter into three to five year leases (with renewal options) that provide for low rents and generally strives to minimize the capital required to open a store. In addition to enhancing the Company's ability to provide value to its customers, this strategy has led to an attractive store level return on investment. The Company will focus its future site selection for Toy Stores primarily in strip shopping centers.

EFFICIENT WAREHOUSE AND DISTRIBUTION OPERATIONS. The Company has focused on increasing the efficiency and reducing the cost of its warehouse and distribution operations in order to improve profitability and enhance its competitive position. The Company is capable of storing large quantities of merchandise purchased off-season at low prices for distribution to its stores at a later date. This enhances the Company's purchasing capabilities by enabling vendors to ship goods earlier than in a traditional retail concept.

FOCUS ON COST CONTROL. The Company maintains a disciplined approach to cost control in all aspects of its business including store expenses, corporate expenses, store leases, fixtures, leasehold improvements, distribution, transportation and inventory management. In addition to its low cost approach to store leasing and efficient warehousing and distribution methods, the Company has implemented numerous expense savings programs in areas such as store payroll, shrink control, accident prevention and other store-related expense categories.

## ADVERTISING AND PROMOTION

The Company uses a variety of marketing approaches to promote its stores to the public. These approaches vary by business, by market and by the time of year. The Company promotes grand openings of its stores through a variety of print and radio promotions. In general, the Company utilizes only those marketing methods that it believes provide an immediate and measurable return on investment.

TRADEMARKS. The Company utilizes trademarks, service marks and tradedress ("intellectual property") in its retail operations. The intellectual property is generally owned by intellectual property protection subsidiaries. The Company considers its intellectual property to be among its most valuable assets and where applicable, has registered, or has applications pending, with the United States Patent and Trademark Office. The Company believes that having distinctive intellectual property is an important factor in identifying the Company and distinguishing it from others.

CLOSEOUT STORES. The Company's marketing program for its Closeout Stores is designed to create an awareness of the broad range of quality, name-brand merchandise available at low prices. The Closeout Stores utilize a combination of weekly advertising circulars in all markets and television advertising in select markets. The Company currently distributes approximately 39 million two or four page circulars between 22 and 41 weeks out of the year. The method of distribution includes a combination of newspaper inserts and direct mail. These circulars are created in-house and are distributed regionally in order to take advantage of market differences caused by climate or other factors. The circulars generally feature 20 to 35 products that vary each week. The Closeout Stores run television promotions in certain markets based upon factors unique to each market, including the number of stores, cost of local media and results of preliminary testing. The Closeout Stores run multiple 30-second television spots per week, each of which feature 4 to 6 highly recognizable, name-brand products. In-store promotions include periodic loudspeaker announcements featuring special bargains as well as humorous in-store signage to emphasize the significant values offered to the customer. The Closeout Stores are refining the use of television advertising to increase awareness of the stores and to attract new and repeat customers.

Historically, the Closeout Stores total advertising expense as a percent of total net sales has been approximately 3.0%.

TOY STORES. The Toy Stores utilize a combination of a holiday promotion catalog as well as periodic in-store sales and store signs to promote their products. Advertising costs were 1.7% of total net sales in 1997. Enclosed shopping mall Toy Stores receive the benefit of large amounts of customer traffic. Similarly, Toy Stores located in strip centers and outlet malls have relied primarily on existing customer traffic and in-store signs to promote their merchandise.

## WAREHOUSING AND DISTRIBUTION

An important aspect of the Company's purchasing strategy involves its ability to warehouse and distribute merchandise quickly and efficiently. As a result, the Company must warehouse certain merchandise until the appropriate season and therefore maintains higher inventories than most conventional retailers. The Company believes it operates the largest retail warehouse and distribution center of its kind in the United States at its primary warehouse and distribution site in Columbus, Ohio. This highly automated facility incorporates high-speed bar code scanning to efficiently sort and load merchandise for immediate store delivery in a timely and cost-efficient manner. The Company has started the implementation of a sophisticated new information system in its closeout business that will enable it to more effectively allocate and manage inventory by SKU. These systems are expected to improve comparable store sales and inventory turns and reduce the need to move merchandise between stores. The

Company intends to continue to invest in its infrastructure in order to increase efficiency, reduce cost and support its expanding operations.

Substantially all the closeout merchandise sold by the Closeout Stores is received and processed for retail sale, as necessary, and distributed to the retail location or wholesale customer from the primary warehouse and distribution center or at the Rancho Cucamonga, California site.

The Company leases additional temporary warehouse space as necessary to support its warehousing requirements throughout the year.

Typically, a Closeout Store receives additional inventory once a week (usually within 24 hours of dispatch) via a dedicated trucking fleet and outside transportation companies.

INFORMATION SYSTEMS

Over the last five fiscal years the Company has continued to enhance its information systems to support growth and the operations of its business. The Company's current systems incorporate fully integrated distribution, allocation, purchase order management, open-to-buy, point of sale and finance functions and represent a combination of externally purchased software packages as well as internally developed software. Current systems enable the Company to take advantage of operating efficiencies resulting from bar-code scanning and automated allocation.

The Company will continue to roll out its next generation of inventory management systems for its Closeout Stores. Upon completion, the new system will provide a number of features that the Company believes will improve inventory turns, decrease markdowns and lower operating expenses. These features include the ability to manage inventories on a micro-SKU basis as compared to its previous macro-SKU based system. Additionally, the new system will incorporate current inventory ownership by SKU by store when allocating merchandise, whereas the existing system allocates inventory based on sales potential without the benefit of store-owned inventory data. The Company has planned a multi-phased roll out for this system, allowing for thorough testing and review prior to start up.

OTHER OPERATIONS

The Company also sells merchandise wholesale from its corporate office in Columbus, Ohio. The inventory consists almost entirely of merchandise obtained through the same or shared opportunistic purchases of the retail operations. Advertising of wholesale merchandise is conducted primarily at trade shows and by mailings to past and potential customers. Wholesale customers include a wide and varied range of major national and regional retailers, as well as smaller retailers, manufacturers, distributors and wholesalers.

ASSOCIATES

At January 31, 1998, the Company had 50,324 active associates comprised of 18,869 full-time and 31,455 part-time associates. Temporary associates hired during the fall and winter holiday selling season increased the number of associates to a peak of approximately 74,900. Approximately two-thirds of the associates employed throughout the year are employed on a part-time basis. The relationship with associates is considered to be good, and the Company is not a party to any labor agreements.

# ITEM 2 PROPERTIES

## RETAIL OPERATIONS

Closeout Stores are located predominantly in strip shopping centers throughout the southwestern, midwestern, southern and mid-Atlantic regions of the United States. Individual stores range in size from 4,427 to 70,417 selling square feet and average approximately 19,228 selling square feet. In selecting suitable new store locations, the Company generally seeks retail space between 22,000 to 30,000 square feet in size. The average cost to open a new store in a leased facility is approximately $700,000, including inventory. The Company plans to open 120 to 150 new stores, net of store closings, during fiscal 1998, all of which will be leased.

The Company's 1,249 Toy Stores are located in enclosed shopping malls, outlet malls and strip shopping centers across the United States and Puerto Rico. Enclosed shopping mall-based stores range in size from 675 to 7,581 selling square feet and average approximately 3,270 selling square feet. Outlet mall stores range in size from 3,030 to 5,616 selling square feet and average approximately 4,021 selling square feet. Strip shopping center stores range in size from 2,068 to 23,636 selling square feet. The Company believes the average optimum size of a strip shopping center store is approximately 6,000 to 8,000 square feet. During fiscal 1998, the Company will open Toy Stores predominately in strip shopping centers and malls. The approximate average cost, including inventory, to open a new outlet mall store or strip shopping center store is $250,000 and $470,000, respectively, and $430,000 to open a mall store. In addition, 88 temporary Toy Stores were operated principally in enclosed shopping malls during the 1997 fall and winter holiday season. The average size of the temporary stores was approximately 3,700 square feet.

With the exception of 53 owned Closeout Store sites, all stores are in leased facilities. Store leases generally provide for fixed monthly rental payments plus the payment, in most cases, of real estate taxes, utilities, insurance and common area maintenance. All Toy Store leases generally include advertising charges. In some locations, the leases provide formulas requiring the payment of a percentage of sales as additional rent. Such payments are generally only required when sales reach a specified level. The typical lease for the Company's Closeout Stores is for an initial term of three to five years with multiple, three to five year renewal options, while the typical lease for the Toy Stores is for an initial term of 10 years with various renewal options. The following tables set forth store lease expirations, exclusive of month to month leases, and state location information for existing store leases at January 31, 1998.

| | Number of Leases Expiring | | | Number of Leases Expiring Without Renewal Options | | |
|---|---|---|---|---|---|---|
| Fiscal Year | Closeout | Toy | Total | Closeout | Toy | Total |
| 1998 | 101 | 105 | 206 | 74 | 93 | 167 |
| 1999 | 164 | 194 | 358 | 80 | 169 | 249 |
| 2000 | 164 | 172 | 336 | 70 | 137 | 207 |
| 2001 | 186 | 158 | 344 | 59 | 100 | 159 |
| 2002 | 127 | 131 | 258 | 52 | 74 | 126 |
| 2003 and beyond | 270 | 302 | 572 | 33 | 256 | 289 |
| | 1,012 | 1,062 | 2,074 | 368 | 829 | 1,197 |

Number of Stores Open

| | Closeout | Toy | Total | | Closeout | Toy | Total |
|---|---|---|---|---|---|---|---|
| Alabama | 26 | 19 | 45 | Nebraska | 3 | 7 | 10 |
| Alaska | | 4 | 4 | Nevada | 9 | 5 | 14 |
| Arizona | 21 | 18 | 39 | New Hampshire | | 11 | 11 |
| Arkansas | 3 | 7 | 10 | New Jersey | 2 | 42 | 44 |
| California | 168 | 129 | 297 | New Mexico | 6 | 8 | 14 |
| Colorado | 12 | 17 | 29 | New York | 20 | 86 | 106 |
| Connecticut | | 32 | 32 | North Carolina | 37 | 32 | 69 |
| Delaware | | 5 | 5 | North Dakota | | 4 | 4 |
| Florida | 80 | 61 | 141 | Ohio | 113 | 57 | 170 |
| Georgia | 48 | 30 | 78 | Oklahoma | 11 | 12 | 23 |
| Hawaii | | 8 | 8 | Oregon | | 11 | 11 |
| Idaho | 2 | 6 | 8 | Pennsylvania | 30 | 64 | 94 |
| Illinois | 32 | 45 | 77 | Puerto Rico | | 22 | 22 |
| Indiana | 45 | 32 | 77 | Rhode Island | | 7 | 7 |
| Iowa | 1 | 10 | 11 | South Carolina | 23 | 15 | 38 |
| Kansas | 8 | 8 | 16 | South Dakota | | 2 | 2 |
| Kentucky | 37 | 19 | 56 | Tennessee | 42 | 28 | 70 |
| Louisiana | 25 | 18 | 43 | Texas | 79 | 76 | 155 |
| Maine | | 7 | 7 | Utah | 9 | 8 | 17 |
| Maryland | 6 | 36 | 42 | Vermont | | 3 | 3 |
| Massachusetts | | 43 | 43 | Virginia | 29 | 40 | 69 |
| Michigan | 34 | 46 | 80 | Washington | | 27 | 27 |
| Minnesota | | 13 | 13 | West Virginia | 22 | 10 | 32 |
| Mississippi | 12 | 7 | 19 | Wisconsin | 10 | 22 | 32 |
| Missouri | 20 | 24 | 44 | Wyoming | | 3 | 3 |
| Montana | | 3 | 3 | | | | |

| | Closeout | Toy | Total |
|---|---|---|---|
| Total Stores | 1,025 | 1,249 | 2,274 |
| Number of states and Puerto Rico | 34 | 51 | |

WAREHOUSE AND DISTRIBUTION

The Company's primary 3,558,000 square foot owned warehouse and distribution center is located in Columbus, Ohio and utilizes two high-speed tilt tray sortation systems with a combined output of approximately 1,400,000 cartons per week. The Company's primary warehouse and distribution center has approximately 242,000 pallet positions for the warehousing of merchandise.

At January 31, 1998, warehouse space utilized by the Closeout operations totaled 6,600,004 square feet consisting principally of locations in Ohio, Alabama and California.

For its Toy Stores as of January 31, 1998, the Company operated warehouse and distribution centers, including a shared portion of the primary warehouse and distribution center, in Alabama, Arizona, Kentucky, Massachusetts, Ohio, New Jersey, and Pennsylvania. These facilities totalled approximately 2,647,000 square feet with a combined shipping capacity of 1,200,000 cartons per week. These warehouse and distribution centers use automated warehouse management systems that include bar code scanning and radio frequency technology to allow for high accuracy and efficient product processing from vendors to the retail stores.

Statistics, for warehouse and distribution centers, by type and locations is as follows:

| | Number | | Square Footage (In thousands) | |
|---|---|---|---|---|
| State | Owned | Leased | Owned | Leased |
| Alabama | 1 | 1 | 647 | 281 |
| Arizona | 1 | | 369 | |
| California | 1 | 1 | 1,423 | 234 |
| Georgia | | 1 | | 250 |
| Kentucky | 1 | 1 | 105 | 202 |
| Massachusetts | 1 | 1 | 250 | 105 |
| New Jersey | 1 | | 360 | |
| Ohio | 1 | 5 | 3,558 | 1,464 |
| Pennsylvania | | 1 | | 153 |
| | 7 | 11 | 6,712 | 2,689 |

ITEM 3 LEGAL PROCEEDINGS

The Company is party to various legal proceedings arising from its ordinary course of operations and believes that the outcome of these proceedings, individually and in the aggregate, will be immaterial.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A special meeting of stockholders was held on January 15, 1998, to consider and vote upon a proposal to issue up to a maximum of 28,000,000 shares of Consolidated Stores Corporation common stock, par value $.01, pursuant to the Agreement and Plan of Merger, dated as of November 4, 1997, by and among the Consolidated Stores Corporation, MBC Consolidated Acquisition Corporation, a wholly owned subsidiary of Consolidated Stores Corporation, and Mac Frugal's Bargains Close-outs, Inc. which provided for the merger of MBC Consolidated Acquisition Corporation with and into Mac Frugal's Bargains Close-outs, Inc. 72,764,559, (86.23% of shares eligible to vote) votes were cast for the issuance, 28,560 votes were cast against and 131,954 votes abstained.

EXECUTIVE OFFICERS OF THE COMPANY

| Name | Age | Offices Held | Officer Since |
|---|---|---|---|
| William G. Kelley | 52 | Chairman of the Board and Chief Executive Officer | 1990 |
| Michael L. Glazer | 50 | President | 1995 |
| Albert J. Bell | 38 | Executive Vice President, Legal, Real Estate, Secretary and General Counsel | 1988 |
| Michael J. Potter | 36 | Executive Vice President and Chief Financial Officer | 1991 |
| Charles Freidenberg | 52 | Sr. Vice President - Merchandising | 1995 |
| James A. McGrady | 47 | Vice President and Treasurer | 1991 |
| Mark D. Shapiro | 38 | Vice President and Controller | 1994 |

William G. Kelley is a Director of the Company and has served in his present capacity as Chairman of the Board and Chief Executive Officer since 1990. Mr. Kelley is also a director of National City Bank.

Michael L. Glazer has served on the Company's Board of Directors since 1991 and previous to his appointment as President of the Company in 1995 he held positions as Executive Vice President and President of The Bombay Company, a home furnishings retailer. Mr. Glazer is also a director of Brookstone, Inc.

Albert J. Bell has served as the Company's general counsel for over five years and has been employed by the Company since 1987.

Charles Freidenberg has been with the Company since 1983 and has held senior management positions in the merchandising area for the past five years.

Michael J. Potter has been with the Company since 1991 and previous to his appointment as Executive Vice President and Chief Financial Officer in 1998, Mr. Potter served as Senior Vice President and Chief Financial Officer and Vice President and Controller.

James A. McGrady has served as the Company's Treasurer for over five years and has been with the Company since 1986.

Mark D. Shapiro has been with the Company since 1992 and prior to his appointment as Vice President and Controller served as Assistant Controller.

# PART II

## ITEM 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed on the New York Stock Exchange (NYSE) under the symbol "CNS." The following table reflects the high and low sales price per share of common stock as quoted from the NYSE composite transactions for the fiscal period indicated. Prices have been restated to reflect 5 for 4 common stock splits effected by a distribution of shares on June 24, 1997 and December 24, 1996, to stockholders of record on June 10, 1997 and December 10, 1996, respectively.

| | 1997 | | 1996 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | $34 3/32 | $25 51/64 | $23 49/64 | $ 13 9/32 |
| Second Quarter | 40 3/4 | 29 29/32 | 25 59/64 | 19 13/64 |
| Third Quarter | 43 3/8 | 34 9/16 | 28 5/16 | 21 3/64 |
| Fourth Quarter | 50 | 38 1/4 | 27 23/64 | 22 61/64 |

As of March 27, 1998, there were 1,425 holders of record of the Company's common stock.

The Company has followed a policy of reinvesting earnings in the business and consequently has not paid any cash dividends. At the present time, no change in this policy is under consideration by the Board of Directors. The payment of cash dividends in the future will be determined by the Board of Directors in consideration of business conditions then existing, including the Company's earnings, financial requirements and condition, opportunities for reinvesting earnings, and other factors.

ITEM 6 SELECTED FINANCIAL DATA

The statement of earnings data and the balance sheet data has been derived from the Company's consolidated financial statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto included elsewhere herein.

| | Fiscal Year Ended | | | | | |
|---|---|---|---|---|---|---|
| | Jan. 31, 1998 | Feb. 1, 1997 | Feb. 3, 1996* | Jan. 28, 1995 | Jan. 29, 1994 | Jan. 30, 1993 |
| | ($ In thousands except earnings per share ) | | | | | |
| Net sales: | | | | | | |
| Closeout Stores | $ 2,452,474 | $ 2,204,521 | $ 1,991,609 | $ 1,794,170 | $ 1,568,534 | $1,378,100 |
| Toy Stores | 1,562,463 | 1,178,224 | 76,689 | 45,937 | | |
| Total Retail | 4,014,937 | 3,382,745 | 2,068,298 | 1,840,107 | 1,568,534 | 1,378,100 |
| Other | 40,365 | 37,419 | 42,652 | 27,030 | 21,537 | 18,489 |
| | 4,055,302 | 3,420,164 | 2,110,950 | 1,867,137 | 1,590,071 | 1,396,589 |
| Cost of sales: | | | | | | |
| Closeout Stores | 1,471,423 | 1,264,780 | 1,153,315 | 996,871 | 867,533 | 761,040 |
| Toy Stores | 933,222 | 687,413 | 40,598 | 22,467 | | |
| Total Retail | 2,404,645 | 1,952,193 | 1,193,913 | 1,019,338 | 867,533 | 761,040 |
| Other | 30,788 | 28,610 | 32,281 | 20,163 | 16,358 | 13,895 |
| | 2,435,433 | 1,980,803 | 1,226,194 | 1,039,501 | 883,891 | 774,935 |
| Gross profit | 1,619,869 | 1,439,361 | 884,756 | 827,636 | 706,180 | 621,654 |
| Selling and administrative expenses | 1,385,682 | 1,166,988 | 730,225 | 655,511 | 570,831 | 535,092 |
| Merger and other related costs | 45,000 | | | | | |
| Operating profit | 189,187 | 272,373 | 154,531 | 172,125 | 135,349 | 86,562 |
| Other expense - net | 26,998 | 22,921 | 19,698 | 11,487 | 7,898 | 10,258 |
| Income from continuing operations before income taxes and extraordinary charge | 162,189 | 249,452 | 134,833 | 160,638 | 127,451 | 76,304 |
| Income taxes | 76,254 | 92,992 | 50,141 | 63,934 | 50,771 | 28,690 |
| Income from continuing operations before extraordinary charge | 85,935 | 156,460 | 84,692 | 96,704 | 76,680 | 47,614 |
| (Loss) income from discontinued operations | | (27,538) | (5,727) | (2,600) | (1,716) | 844 |
| Extraordinary charge | | (1,856) | | | | |
| Net income | $ 85,935 | $ 127,066 | $ 78,965 | $ 94,104 | $ 74,964 | $ 48,458 |
| Income (loss) per share: | | | | | | |
| Continuing operations | $ 0.80 | $ 1.49 | $ 0.86 | $ 0.98 | $ 0.77 | $ 0.47 |
| Discontinued operations | | (0.26) | (0.06) | (0.03) | (0.02) | 0.01 |
| Extraordinary charge | | (0.02) | | | | |
| | $ 0.80 | $ 1.21 | $ 0.80 | $ 0.95 | $ 0.75 | $ 0.48 |
| Income (loss) per share - diluted: | | | | | | |
| Continuing operations | $ 0.77 | $ 1.44 | $ 0.84 | $ 0.95 | $ 0.75 | $ 0.46 |
| Discontinued operations | | (0.25) | (0.06) | (0.03) | (0.02) | 0.01 |
| Extraordinary charge | | (0.02) | | | | |
| | $ 0.77 | $ 1.17 | $ 0.78 | $ 0.92 | $ 0.73 | $ 0.47 |
| Average common shares outstanding (In thousands): | | | | | | |
| Basic | 107,621 | 104,642 | 98,185 | 99,352 | 100,297 | 100,290 |
| Diluted | 112,063 | 108,402 | 100,645 | 101,772 | 103,098 | 102,971 |

* Fiscal 1995 is comprised of 53 weeks.

SELECTED FINANCIAL DATA - CONTINUED

| | Fiscal Year Ended | | | | | |
|---|---|---|---|---|---|---|
| | Jan. 31, 1998 | Feb. 1, 1997 | Feb. 3, 1996* | Jan. 28, 1995 | Jan. 29, 1994 | Jan. 30, 1993 |
| | ($ In thousands) | | | | | |
| BALANCE SHEET DATA: | | | | | | |
| Working capital | $ 582,206 | $ 563,543 | $ 398,377 | $254,613 | $282,852 | $248,139 |
| Total assets | 1,746,381 | 1,715,499 | 1,058,887 | 937,996 | 837,783 | 762,699 |
| Long-term obligations | 115,281 | 155,049 | 121,435 | 44,491 | 53,869 | 104,475 |
| Stockholders' equity | 1,034,542 | 934,114 | 619,963 | 532,115 | 515,885 | 433,906 |
| STORE OPERATING DATA: | | | | | | |
| Year end gross square footage (000's): | | | | | | |
| Closeout Stores | 26,623 | 24,253 | 22,081 | 19,982 | 17,609 | 15,472 |
| Toy Stores | 5,781 | 5,267 | 552 | 401 | | |
| | 32,404 | 29,520 | 22,633 | 20,383 | 17,609 | 15,472 |
| New stores opened: | | | | | | |
| Closeout Stores | 118 | 95 | 102 | 122 | 110 | 59 |
| Toy Stores (1) | 115 | 1,095 | 30 | 82 | | |
| | 233 | 1,190 | 132 | 204 | 110 | 59 |
| Stores closed: | | | | | | |
| Closeout Stores | 26 | 14 | 16 | 25 | 27 | 24 |
| Toy Stores | 50 | 22 | 1 | | | |
| | 76 | 36 | 17 | 25 | 27 | 24 |
| Stores open at end of year: | | | | | | |
| Closeout Stores | 1,025 | 933 | 852 | 766 | 669 | 586 |
| Toy Stores | 1,249 | 1,184 | 111 | 82 | | |
| | 2,274 | 2,117 | 963 | 848 | 669 | 586 |

(1) Includes 1,042 KB Toy stores acquired May 5, 1996.

## ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CAUTIONARY STATEMENT FOR PURPOSES OF "SAFE HARBOR" PROVISIONS OF THE SECURITIES LITIGATION REFORM ACT OF 1995

When used in this discussion and the financial statements that follow, the words, "expect(s)", "feel(s)", "believe(s)", "will", "may", "anticipate(s)" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including the following Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report, as well as, the Company's periodic reports on Forms 10-Q and 8-K filed with the Securities and Exchange Commission.

### OVERVIEW

Management's discussion and analysis has been prepared giving effect to the pooling of interest business combination with Mac Frugal's Bargains Close-outs, Inc. (Mac Frugal's) on January 16, 1998. Effective May 5, 1996, 1,042 Toy Stores were acquired from Melville Corporation and accounted for as a purchase. In the fourth quarter of 1996 the Company adopted a plan to close its single price point and small specialty stores operating under the names of All For One and iTZADEAL!. Closures of the 165 stores open at February 1, 1997, was completed throughout fiscal 1997. Accordingly, the operating results for this business are reported as a discontinued operation at February 1, 1997, and prior years operating results have been restated to reflect continuing operations. The discussion and analysis presented below should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this report.

The Company is the nation's largest closeout retailer and a leading toy retailer with 2,274 stores located in all 50 states and Puerto Rico. The Company operates 1,025 retail closeout stores under the names Odd Lots, Big Lots, Mac Frugal's Bargains Close-outs, and Pic `N' Save (Closeout Stores) and 1,249 retail toy and closeout toy stores primarily under the names KB Toys, KB Toy Works, and KB Toy Outlet (Toy Stores). The Company is the largest enclosed shopping mall-based toy retailer in the United States. As a value retailer focused on closeout merchandise, the Company seeks to provide the budget-conscious consumer with a broad range of quality, name-brand products at exceptional values. The Company's name-brand closeout merchandise primarily consists of products obtained from manufacturers' excess inventories, which generally result from production overruns, package changes, discontinued products and returns.

The following table compares components of the statements of earnings of Consolidated Stores as a percent to net sales.

| | Fiscal Year | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| Net sales: | | | |
| Closeout Stores | 60.5% | 64.5% | 94.4% |
| Toy Stores | 38.5 | 34.5 | 3.6 |
| Total Retail | 99.0 | 99.0 | 98.0 |
| Other | 1.0 | 1.0 | 2.0 |
| Total net sales | 100.0 | 100.0 | 100.0 |
| Gross Profit: | | | |
| Closeout Stores | 40.0 | 42.6 | 42.1 |
| Toy Stores | 40.3 | 41.7 | 47.1 |
| Total Retail | 40.1 | 42.3 | 42.3 |
| Other | 23.7 | 23.5 | 24.3 |
| Total Gross Profit | 39.9 | 42.1 | 41.9 |
| Selling and administrative expenses | 34.2 | 34.3 | 34.6 |
| Non selling and administrative expenses (gains) | 1.1 | (0.2) | |
| Operating profit | 4.6 | 8.0 | 7.3 |
| Interest expense | 0.6 | 0.7 | 0.9 |
| Other expense | | | 0.1 |
| Income from continuing operations before income taxes and extraordinary charge | 4.0 | 7.3 | 6.3 |
| Income taxes | 1.9 | 2.7 | 2.4 |
| Income from continuing operations before extraordinary charge | 2.1 | 4.6 | 3.9 |
| Loss from discontinued operations | | 0.8 | 0.3 |
| Extraordinary charge | | 0.1 | |
| Net income | 2.1% | 3.7% | 3.6% |

The Company has historically experienced, and expects to continue to experience, seasonal fluctuations with a significant percentage of its net sales and income being realized in the fourth fiscal quarter. In addition, the Company's quarterly results can be affected by the timing of store openings and closings, the amount of net sales contributed by new and existing stores and the timing of certain holidays. The following table illustrates the seasonality in the net sales and operating income.

| | Quarter | | | |
|---|---|---|---|---|
| | First | Second | Third | Fourth(1) |
| Fiscal 1997 | | | | |
| Percent net sales of full year | 19.2% | 19.8% | 21.2% | 39.8% |
| Operating profit percentage of full year | 1.1 | 7.6 | 13.6 | 77.7 |
| Fiscal 1996 (Pro forma(2)) | | | | |
| Percent net sales of full year | 18.3 | 19.2 | 21.5 | 41.0 |
| Operating profit (loss) percentage of full year | (3.4) | 2.5 | 7.0 | 93.9 |

(1) Excludes non selling and administrative expenses of $45 million in 1997 and a non selling and administrative gain of $6 million in 1996.

(2) Reflects acquisition of KB Toys at the beginning of 1996.

FISCAL 1997 COMPARED TO FISCAL 1996

NET SALES. Net sales increased to $4,055 million in fiscal 1997 from $3,420 million in fiscal 1996, an increase of $635 million, or 18.6%. This increase was attributable to full year impact of sales for KB Toys acquired in May of 1996, sales from 233 new stores and comparable store sales increases of 6.9%, offset in part by the closing of 76 stores.

Closeout Stores net sales increased $248.0 million, or 11.2%, to $2,452 million in fiscal 1997 from $2,205 million in fiscal 1996. Contributing to this increase was a rise in comparable stores sales of 4.8% and the addition of 92 net new stores during the year. Net sales of Toy Stores increased $384.2 million in fiscal 1997 to $1,562 million. This improvement reflects a comparable store sales increase of 10.1%, the addition of 65 net new stores, and the full period impact of sales from the date of acquisition of KB Toys.

GROSS PROFIT. Gross profit increased $180.5 million, or 12.5%, in fiscal 1997 to $1,620 million from $1,439 million in fiscal 1996. In the fourth quarter of 1997 the Company recorded a $70,000,000 ($42,700,000 after tax, or $.38 per diluted common share) inventory charge to reflect costs associated with the Mac Frugal's merger for discontinued products, inventory consolidation and retail price equalization for the combined inventory assortment. This charge reduced gross profit as a percent of sales by 1.8%. Adjusted for the inventory charge gross profit was 41.7% in fiscal 1997 compared to 42.1% for the prior year.

The effect of the above noted charge reduced fiscal 1997 Closeout Stores gross profit percentage by 2.9% to 40.0% in contrast to 1996 gross profit of 42.6%. Toy Stores gross profit was 40.3% in 1997 compared to 41.7% in 1996. The decline in Toy Stores gross profit is principally attributable to the higher volume of video sales in 1997 which have a lower profit margin than traditional toys.

SELLING AND ADMINISTRATIVE EXPENSES. Selling and administrative expenses increased $218.7 million in fiscal 1997 from $1,167 million in fiscal 1996. This increase is attributable to the full year impact in 1997 of operating expenses associated with KB Toys acquired in May 1996. Selling and administrative expenses in fiscal 1996 include a gain of $6.1 million related to the fire loss settlement for one of the Company's warehouses. Historically the KB Toy stores cost structure has incurred a higher percentage ratio of selling and administrative expenses to net sales.

MERGER AND OTHER RELATED CHARGES. In connection with the Mac Frugal's merger the Company recorded a fourth quarter charge to operating expense of $45,000,000 ($40,500,000 after taxes, or $.36 per diluted common share) for direct and other related costs pertaining to the combination. Merger transaction costs were primarily comprised of fees for professional services, severance and similar related costs.

INTEREST EXPENSE. Interest expense increased to $25.7 million in fiscal 1997 from $23.0 million in fiscal 1996. The increase was attributable to higher weighted average debt levels principally to support requirements associated with the operations of the increased number of stores, increased inventory levels, capital expenditures and the pre merger stock buy back program of Mac Frugal's.

INCOME TAXES. The effective tax rate of the Company increased to 47.0% in fiscal 1997 from 37.2% in 1996. This increase is principally associated with merger and other related charges in connection with the business combination with Mac Frugal's. Additionally, the Company surrendered its corporate-owned life insurance program in 1996.

FISCAL 1996 COMPARED TO FISCAL 1995

NET SALES. Net sales increased to $3,420 million in fiscal 1996 from $2,111 million in fiscal 1995, an increase of $1,309 million, or 62%. This increase was attributable to an increase of $1,102 million of Toy sales, sales from 148 new stores and a comparable store sales increase of 6.7%. The sales increase was offset in part by the closing of 36 stores and the 53rd week of sales effect in fiscal 1995.

Net sales of Closeout Stores increased $212.9 million, or 10.7%, to $2,204 million in fiscal 1996 from $1,992 million in fiscal 1995. This increase was attributable to the opening of 81 net new closeout stores and a comparable store sales increase of 3.3%. Toy Stores sales improved primarily as a result of the acquisition of KB Toys in May of 1996.

GROSS PROFIT. Gross profit increased to $1,439 million in fiscal 1996 from $884.8 million in fiscal 1995, an increase of $554.6 million, or 62.7%. Fiscal 1995 includes a $35 million noncash charge attributable to Mac Frugal's for the liquidation of aged inventories. A majority of these markdowns were taken in the fourth quarter of 1995 and the first quarter of 1996. As a percentage of net sales, gross profit improved to 42.1% compared to 41.9% in fiscal 1995.

Closeout Stores gross profit was 42.6% in 1996 compared to 42.1% in 1995. Toy Stores gross profit was 41.7% in 1996 compared to 47.1% in 1995. The decline in Toy Stores gross profit is principally attributable to the higher percentage of lower margin in-line toys in the KB merchandise mix compared to the primarily closeout selection offered by the Toy Stores in prior years. The Company increased the mix of closeout toys offered in its KB Toy stores subsequent to fiscal 1996.

SELLING AND ADMINISTRATIVE EXPENSES. Selling and administrative expenses increased to $1,167 million in fiscal 1997 from $730.2 million in fiscal 1995, an increase of $436.8 million. This increase is attributable to the acquisition of the KB Toy Stores. As a percentage of net sales, selling and administrative expenses decreased slightly to 34.3%, excluding a $6.1 million one time gain, in fiscal 1996 from 34.6% in fiscal 1995.

INTEREST EXPENSE. Interest expense increased to $23.0 million in fiscal 1996 from $18.0 million in fiscal 1995. The increase was attributable to higher weighted average debt levels principally to support requirements associated with the operations of the increased number of Toy Stores, increased effective interest rates on seasonal borrowings throughout the fiscal year, pre merger stock buy backs, and debt associated with the issuance of $100 million of subordinated debentures related to the acquisition of Kay-Bee Center, Inc. The increase in the effective interest rate was offset to some extent by the early extinguishment of $35 million of senior debt.

INCOME TAXES. The effective tax rate of the Company was 37.2% in fiscal 1996 and 1995.

CAPITAL RESOURCES AND LIQUIDITY

The primary sources of liquidity for the Company have been cash flow from operations and borrowings under available credit facilities. Total debt as a percent of total capitalization (total debt and stockholders equity) was 10% at January 31, 1998, compared with 14.2% and 16.4% at each of the respective prior fiscal year ends. Working capital has increased from $254.6 million at the beginning of fiscal 1995 to $582.2 million at January 31, 1998. This data reflects the strength of the Company's balance sheet and the ability to absorb debt financing as, and if, necessary.

Capital expenditures for the last three fiscal years have been $146.5 million, $104.8 million and $74.2 million, respectively, and were used primarily to fund new store openings and distribution center expansions. The capital expenditure requirements anticipated for 1998 are approximately $180 million primarily to support new store expansion of 300 stores and warehouse and equipment requirements.

The Company has a Revolving Credit Facility which provides senior bank financing in an aggregate principal amount of up to $600 million. The facility has a maturity date of May 3, 2000. From time-to-time the Company also utilizes uncommitted credit facilities, subject to the terms of the Revolving Credit Facility, to supplement short-term borrowing requirements. At January 31, 1998, approximately $517.8 million was available for borrowings under the Revolver and $72 million of uncommitted credit facilities were available, subject to the terms of the revolving credit facility.

In 1996 the Company issued $100 million of Subordinated Notes. The Subordinated Notes mature in the year 2000 and bear interest at a rate of 7% per annum, payable semiannually. The Subordinated Notes are redeemable at the option of the Company, in whole or in part, after two years from their issuance, at a premium to their principal, plus accrued interest.

Over the past three fiscal years Mac Frugal's utilized approximately $53.4 million for the repurchase of common stock. At the present time the Company does not, and does not anticipate having in the near future, a stock repurchase program.

The Company continues to believe that it has, or if necessary has the ability to obtain, adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. Additionally, management is not aware of any current trends, events, demands, commitments, or uncertainties which reasonably can be expected to have a material impact on the liquidity, capital resources, financial position or results of operations of the Company.

IMPACT OF YEAR 2000

The Company has been addressing computer software modifications or replacements to enable transactions to process properly in the year 2000. All necessary changes are anticipated to occur in a timely manner and the cost will not have a significant impact on the ongoing results of operations.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Consolidated Stores Corporation:

We have audited the accompanying consolidated balance sheets of CONSOLIDATED STORES CORPORATION and subsidiaries as of January 31, 1998, and February 1, 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three fiscal years in the period ended January 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a)2. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of CONSOLIDATED STORES CORPORATION and subsidiaries at January 31, 1998, and February 1, 1997, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP

Dayton, Ohio
March 2, 1998

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

| | Fiscal Year 1997 | 1996 | 1995 |
|---|---|---|---|
| Net sales | $ 4,055,302 | $ 3,420,164 | $2,110,950 |
| Costs and expenses: | | | |
| Cost of sales | 2,435,433 | 1,980,803 | 1,226,194 |
| Selling and administrative expenses | 1,385,682 | 1,166,988 | 730,225 |
| Merger and other related charges | 45,000 | | |
| Interest expense | 25,691 | 22,991 | 17,992 |
| Other expense (income) - net | 1,307 | (70) | 1,706 |
| | 3,893,113 | 3,170,712 | 1,976,117 |
| Income from continuing operations before income taxes and extraordinary charge | 162,189 | 249,452 | 134,833 |
| Income taxes | 76,254 | 92,992 | 50,141 |
| Income from continuing operations before extraordinary charge | 85,935 | 156,460 | 84,692 |
| Loss from discontinued operations | | 27,538 | 5,727 |
| Extraordinary charge | | 1,856 | |
| Net income | $ 85,935 | $ 127,066 | $ 78,965 |
| Income (loss) per common share: | | | |
| Continuing operations | $ 0.80 | $ 1.49 | $ 0.86 |
| Discontinued operations | | (0.26) | (0.06) |
| Extraordinary charge | | (0.02) | |
| | $ 0.80 | $ 1.21 | $ 0.80 |
| Income (loss) per common share - diluted: | | | |
| Continuing operations | $ 0.77 | $ 1.44 | $ 0.84 |
| Discontinued operations | | (0.25) | (0.06) |
| Extraordinary charge | | (0.02) | |
| | $ 0.77 | $ 1.17 | $ 0.78 |

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

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

| | January 31, 1998 | February 1, 1997 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 41,714 | $ 39,683 |
| Inventories | 910,668 | 974,940 |
| Deferred income taxes | 86,582 | 67,447 |
| Other current assets | 68,510 | 55,678 |
| Total current assets | 1,107,474 | 1,137,748 |
| Property and equipment - net | 613,478 | 553,590 |
| Other assets | 25,429 | 24,161 |
| | $ 1,746,381 | $1,715,499 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 280,117 | $ 335,975 |
| Accrued liabilities | 134,288 | 128,713 |
| Income taxes | 38,920 | 78,453 |
| Current maturities of long-term obligations | 71,943 | 31,064 |
| Total current liabilities | 525,268 | 574,205 |
| Long-term obligations | 115,281 | 155,049 |
| Deferred income taxes | 71,290 | 49,229 |
| Other noncurrent liabilities | | 2,902 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock - authorized 2,000 shares, $.01 par value: none issued | | |
| Common stock - authorized 290,000 shares (1997) and 90,000 shares (1996), $.01 par value; issued 107,796 shares and 91,644 shares, respectively | 1,078 | 917 |
| Nonvoting common stock - authorized 8,000 shares, $.01 par value; none issued | | |
| Additional paid-in capital | 335,038 | 322,967 |
| Retained earnings | 698,426 | 642,920 |
| Other adjustments | | (486) |
| | 1,034,542 | 966,318 |
| Treasury stock, at cost, 1,494 shares (1996) | | 32,204 |
| Total stockholders' equity | 1,034,542 | 934,114 |
| | $ 1,746,381 | $1,715,499 |

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

| | Fiscal Year 1997 | 1996 | 1995 |
|---|---|---|---|
| **COMMON STOCK:** | | | |
| Balance at beginning of year | $ 917 | $ 719 | $ 750 |
| Issuance of common stock | | 51 | |
| 5 for 4 stock split | 169 | 134 | |
| Contribution to savings plan | 1 | 1 | 1 |
| Treasury stock retired | (64) | | (40) |
| Exercise of stock options and issue of restricted stock | 55 | 12 | 8 |
| Balance at end of year | $ 1,078 | $ 917 | $ 719 |
| **ADDITIONAL PAID-IN CAPITAL:** | | | |
| Balance at beginning of year | $ 322,967 | $ 105,493 | $ 97,636 |
| Issuance of common stock | | 190,588 | |
| Treasury stock retired | (22,946) | | (3,314) |
| 5 for 4 stock split | (169) | (134) | |
| Exercise of stock options and issue of restricted stock | 31,214 | 24,758 | 9,689 |
| Noncash compensation expense | 60 | 81 | 86 |
| Contribution to savings plan | 3,912 | 2,181 | 1,396 |
| Balance at end of year | $ 335,038 | $ 322,967 | $ 105,493 |
| **RETAINED EARNINGS:** | | | |
| Balance at beginning of year | $ 642,920 | $ 515,854 | $ 515,616 |
| Treasury stock retired | (30,429) | | (78,727) |
| Net income for the year | 85,935 | 127,066 | 78,965 |
| Balance at end of year | $ 698,426 | $ 642,920 | $ 515,854 |
| **OTHER ADJUSTMENTS:** | | | |
| Balance at beginning of year | $ (486) | $ (530) | $ 194 |
| Change in unrealized investment gain | | (1,436) | 296 |
| Minimum pension liability adjustment | 486 | 1,480 | (1,020) |
| Balance at end of year | | $ (486) | $ (530) |
| **TREASURY STOCK:** | | | |
| Balance at beginning of year | $ (32,204) | $ (1,573) | $ (82,081) |
| Purchase of treasury stock, at cost | (21,235) | (30,631) | (1,573) |
| Treasury stock retired | 53,439 | | 82,081 |
| Balance at end of year | | $ (32,204) | $ (1,573) |

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

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Fiscal Year 1997 | 1996 | 1995 |
|---|---|---|---|
| OPERATING ACTIVITIES: | | | |
| Net income | $ 85,935 | $ 127,066 | $ 78,965 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Discontinued operations | | 18,900 | |
| Depreciation and amortization | 79,163 | 66,631 | 48,236 |
| Deferred income taxes | 2,926 | (6,929) | (8,341) |
| Other | 19,879 | 13,005 | 2,881 |
| Change in assets and liabilities | (38,376) | (29,634) | (76,174) |
| Net cash provided by operating activities | 149,527 | 189,039 | 45,567 |
| INVESTING ACTIVITIES: | | | |
| Payment for acquired business | | (185,300) | |
| Capital expenditures | (146,460) | (104,784) | (74,208) |
| Investment in corporate owned life insurance | | | (6,870) |
| Other | (4,142) | 14,915 | 6,683 |
| Net cash used in investing activities | (150,602) | (275,169) | (74,395) |
| FINANCING ACTIVITIES: | | | |
| Proceeds from issuance of common stock | | 190,639 | |
| Purchase of Mac Frugal's treasury stock | (21,235) | (30,631) | (1,573) |
| Payments of senior notes and long-term obligations - net | (442) | (58,313) | (4,763) |
| Proceeds from credit arrangements | 1,553 | | |
| Debt issue payments | | (10,393) | |
| Extinguishment of debt | | (2,946) | |
| Proceeds from exercise of stock options | 18,840 | 12,356 | 5,460 |
| Proceeds attributable to deferred credits | 3,638 | 3,716 | 1,745 |
| Other | 752 | 1,101 | 1,213 |
| Net cash provided by financing activities | 3,106 | 105,529 | 2,082 |
| Increase (decrease) in cash and cash equivalents | $ 2,031 | 19,399 | (26,746) |

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

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### DESCRIPTION OF BUSINESS

The Company is the nation's largest closeout retailer and largest mall based toy retailer with stores located in all 50 states and Puerto Rico. As a value retailer specializing in closeout merchandise and toys the Company operates a total of 2,274 stores at January 31, 1998, comprised of 1,025 retail closeout specialty stores under the names ODD LOTS, BIG LOTS, MAC FRUGAL'S BARGAINS CLOSE-OUTS, and PIC `N' SAVE and 1,249 retail toy and closeout toy stores under the names KB TOYS, KB TOY WORKS, and KB TOY OUTLET.

### FISCAL YEAR

The Company follows the concept of a 52/53 week fiscal year which ends on the Saturday nearest to January 31. Fiscal year 1995 ending February 3, 1996, is comprised of 53 weeks.

### BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect reported amounts of assets and liabilities and disclosure of significant contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of highly liquid investments which are unrestricted as to withdrawal or use, and which have an original maturity of three months or less. Cash equivalents are stated at cost which approximates market value.

### INVENTORIES

Inventories are stated at the lower of cost or market, first-in first-out basis, primarily on the retail method.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization are provided on the straight line method for financial reporting purposes. Service lives are principally forty years for buildings and from four to ten years for other property and equipment.

### INVESTMENTS

Noncurrent investments in equity securities are classified as other assets in the consolidated balance sheets and are stated at fair value. Unrealized gains on equity securities classified as available-for-sale are recorded as a separate component of stockholders' equity net of applicable income taxes. The Company's investment in corporate owned life insurance is recorded net of policy loans as other assets.

### DEFERRED CREDITS

Deferred credits associated with purchase commitments are classified as other noncurrent liabilities and are recognized when earned as a reduction of the related inventory purchase cost.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

PRE-OPENING COSTS

Non-capital expenditures associated with opening new stores are charged to expense over the first twelve months of store operations.

ACCOUNTING STANDARDS CHANGES

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") 128, "Earnings Per Share".

In 1997, SFAS 130, "Reporting Comprehensive Income" and SFAS 131, "Disclosures About Segments of an Enterprise and Related Information" were issued. These standards, which will become effective in 1998, expand or modify disclosures and, accordingly will have no effect on the Company's consolidated financial position, results of operations or cash flows.

BUSINESS COMBINATIONS

In January 1998, 23,371,639 common shares were issued in exchange for all outstanding common shares of Mac Frugal's Bargains Close-outs, Inc. (Mac Frugal's) a closeout retailer.

The combination constituted a tax-free reorganization and has been accounted for as a pooling of interests. Accordingly, the accompanying financial statements have been restated to include the accounts of Mac Frugal's for all periods presented. Certain conforming reclassifications have been made to Mac Frugal's financial statements. Net sales, income from continuing operations and net income of the separate companies for the periods preceding the acquisition were:

| (In thousands) | Nine months ended Nov. 1, 1997 | Fiscal Year 1996 | Fiscal Year 1995 |
|---|---|---|---|
| Net sales: | | | |
| Consolidated Stores | $1,889,026 | $2,647,516 | $1,406,016 |
| Mac Frugal's | 550,177 | 772,648 | 704,934 |
| | $2,439,203 | $3,420,164 | $2,110,950 |
| Income (loss) from continuing operations before extraordinary charge: | | | |
| Consolidated Stores | $ (3,336) | $ 113,311 | $ 70,133 |
| Mac Frugal's | 21,415 | 43,149 | 14,559 |
| | $ 18,079 | $ 156,460 | $ 84,692 |
| Net income: | | | |
| Consolidated Stores | $ (3,336) | $ 83,917 | $ 64,406 |
| Mac Frugal's | 21,415 | 43,149 | 14,559 |
| | $ 18,079 | $ 127,066 | $ 78,965 |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BUSINESS COMBINATIONS - CONTINUED

In connection with the Mac Frugal's combination the Company recorded a fourth quarter charge to operating expense of $45,000,000 ($40,500,000 after taxes, or $.36 per diluted common share) for direct and other related costs pertaining to the combination. Merger transaction costs were primarily comprised of fees for professional services, severance and similar related costs.

Additionally, the Company recorded a $70,000,000 ($42,700,000 after tax, or $.38 per diluted common share) charge to cost of sales in the fourth quarter of 1997 for combination related expenses for discontinued products, inventory consolidation and retail price equalization for the combined inventories.

Excluding the cost of sales charge and merger and other related charges income per share, assuming dilution, would have been $1.51 in fiscal 1997.

Details of the merger and other related costs before applicable taxes are as follows:

| (In thousands) | Provided for in fiscal 1997 | Utilized in 1997 | Balance |
|---|---|---|---|
| Inventory charges included in cost of sales | $ 70,000 | $10,137 | $59,863 |
| Merger transaction costs: | | | |
| Professional fees and services | 15,500 | 9,028 | 6,472 |
| Employee severence/termination costs | 22,000 | 12,002 | 9,998 |
| Other | 7,500 | 725 | 6,775 |
| Total merger transaction costs | 45,000 | 21,755 | 23,245 |
| | $115,000 | $31,892 | $83,108 |

Effective May 5, 1996, the Company acquired Kay-Bee Center, Inc. (KB) from Melville Corporation for a initial purchase price of $185.3 million. This acquisition was accounted for as a purchase with the results of KB included from the acquisition date. At May 5, 1996, KB operated 1,042 toy stores located in all 50 states and Puerto Rico.

The following summary, prepared on a pro forma basis, combines the results of operations as if KB had been acquired at the beginning of the fiscal years presented. Included in the pro forma presentation is the impact of certain purchase adjustments directly attributable to the acquisition which are expected to have a continuing impact.

| (In thousands) | 1996 | 1995 |
|---|---|---|
| | (Unaudited) | |
| Net sales | $3,596,555 | $3,196,372 |
| Income from continuing operations before extraordinary charge | $ 138,774 | $ 47,098 |
| Net income | $ 109,380 | $ 41,369 |
| Income per share - diluted: | | |
| Continuing operations | $ 1.26 | $ 0.43 |
| Net income | $ 0.99 | $ 0.38 |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BUSINESS COMBINATIONS - CONTINUED

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the KB acquisition been consummated as of the beginning of the fiscal years presented. Additionally, the pro forma financial information is not intended to be a prediction of future results and it does not reflect any synergies that may be achieved from the combined operations.

DISCONTINUED OPERATIONS

In the fourth quarter of 1996 the Company adopted a plan to close its single price point and small specialty stores operating under the names of All For One and iTZADEAL!. Closures of the 165 stores open at February 1, 1997, were completed throughout fiscal 1997. Accordingly, the operating results for this business are reported as a discontinued operation for fiscal 1996 and 1995. Summary operating results and financial information of this discontinued operation are as follows:

| (In thousands) | 1996 | 1995 |
|---|---|---|
| Net sales | $ 84,253 | $106,283 |
| Gross profit | $ 38,134 | $ 49,698 |
| Loss before income taxes | $(13,710) | $ (9,091) |
| Income tax benefit | 5,072 | 3,364 |
| | (8,638) | (5,727) |
| Loss on store closures, net of tax | (18,900) | |
| | $(27,538) | $ (5,727) |

INCOME TAXES

The provision for income taxes on continuing operations is comprised of the following:

| (In thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Federal - Currently payable | $59,843 | $77,195 | $48,656 |
| Deferred | 2,926 | 4,134 | (7,673) |
| State and Local | 12,411 | 10,540 | 9,158 |
| Foreign | 1,074 | 1,123 | |
| | $76,254 | $92,992 | $50,141 |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INCOME TAXES - CONTINUED

A reconciliation between the statutory federal income tax rate and the effective tax rate follows:

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Statutory Federal income tax rate | 35.0% | 35.0% | 35.0% |
| Effect of: | | | |
| State and local income taxes | 5.0 | 3.5 | 3.7 |
| Work Opportunity and Targeted jobs tax credit | (0.3) | (0.1) | (0.5) |
| Corporate owned life insurance investments | | (0.7) | (1.9) |
| Merger and other related charges | 8.0 | | |
| Other | (0.7) | (0.5) | 0.9 |
| Effective tax rate | 47.0% | 37.2% | 37.2% |

Deferred taxes reflect the effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the Company's deferred tax assets and liabilities are presented in the following table.

| (In thousands) | 1997 | 1996 |
|---|---|---|
| Deferred tax assets: | | |
| Uniform inventory capitalization | $19,184 | $20,270 |
| Discontinued operations | 383 | 11,458 |
| Inventory valuation allowance | 27,338 | 9,061 |
| Deferred credits | 1,072 | 1,596 |
| Other (each less than 5% of total assets) | 38,605 | 25,062 |
| Total deferred tax assets | 86,582 | 67,447 |
| Deferred tax liabilities: | | |
| Depreciation | 63,964 | 32,839 |
| Other | 7,326 | 16,390 |
| Total deferred tax liabilities | 71,290 | 49,229 |
| Net deferred tax assets | $15,292 | $18,218 |

Net income taxes paid were $96,695,000, $24,811,000, and $58,476,000 in 1997, 1996, and 1995, respectively.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## LONG-TERM OBLIGATIONS

Long-term debt was comprised of the following on the dates indicated:

| (In thousands) | 1997 | 1996 |
|---|---|---|
| Credit Agreements | $ 68,600 | $ 67,600 |
| 7% Subordinated Notes | 100,000 | 100,000 |
| 9.25% Mortgage Note | 7,705 | 7,880 |
| Industrial Development Revenue Bonds | 2,000 | 2,000 |
| Capital leases | 3,587 | 3,704 |
| Other, primarily deferred rent | 5,332 | 4,929 |
| | 187,224 | 186,113 |
| Less current portion | 71,943 | 31,064 |
| | $115,281 | $155,049 |

Annual maturities of long-term debt for the next five fiscal years are: 1998, $71,943,000; 1999, $352,000; 2000, $100,386,000; 2001, $425,000; 2002, $467,000 and thereafter $13,651,000.

Interest paid, including capitalized interest of $1,386,000, $258,000 and $227,000 in each of the respective previous three fiscal years, was $30,437,000 in 1997, $24,206,000 for 1996, and $23,154,000 in 1995.

## CREDIT AGREEMENTS

The Company has a $600,000,000 Revolving Credit Facility (Revolver) with a syndicate of financial institutions to provide unsecured senior bank financing. The Revolver has a maturity date of May 3, 2000, and requires the maintenance of certain standard financial ratios and prohibits the payment of cash dividends. At January 31, 1998, approximately $517,780,000 was available for borrowings under the Revolver. The Company was contingently liable for outstanding letters of credit under the Revolver totaling $68,620,000 at January 31, 1998. Additionally, the Company has guaranteed letters of credit totaling $23,331,000 relating to letters of credit assumed in the merger of Mac Frugal's. Direct borrowings under the Revolver at January 31, 1998, were at a rate of 5.9%.

Additionally, $72,000,000 of uncommitted short-term credit facilities are available, subject to provisions of the Revolver, at January 31, 1998. Borrowings under the uncommitted facilities were $55,000,000 as of January 31, 1998, at a rate of 5.9%. There were no direct borrowings outstanding pursuant to any uncommitted credit facilities at February 1, 1997.

## SUBORDINATED NOTES

In connection with the acquisition of KB the Company issued $100,000,000 of Subordinated Notes. The Subordinated Notes mature in the year 2000 and bear interest at a rate of 7% per annum, payable semiannually. The Subordinated Notes are redeemable, subject to provisions of the Revolver, at the option of the Company, in whole or in part, after two years from their issuance, at a premium to their principal, plus accrued interest. Provisions of the Subordinated Notes provide, among other matters, limitations on; additional indebtedness, payments of certain indebtedness, and asset sales. The estimated fair value at January 31, 1998, was $99,882,000 and the related carrying amount was $100,000,000.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LONG-TERM OBLIGATIONS - CONTINUED

EXTRAORDINARY CHARGE

During the second quarter of 1996 the Company recorded an extraordinary charge in connection with the early extinguishment of $35 million of 10.5% senior notes. The charge before income taxes was $2.9 million.

COMMITMENTS

The Company has commitments to certain vendors for future inventory purchases totaling approximately $34,500,000 at January 31, 1998. Terms of the commitments provide for these inventory purchases to be made through fiscal 1998 or later as may be extended. There are no annual minimum purchase requirements.

EMPLOYEE BENEFIT PLANS

PENSION BENEFITS

The Company has a qualified defined benefit pension plan covering certain employees hired on or before March 31, 1994, and a non-qualified supplemental defined benefit pension plan effective January 1, 1996, covering a select group of highly compensated employees to ensure the overall retirement pension benefits frozen for such group of employees under the qualified plan. Benefits under each plan are based on credited years of service and the employee's compensation during the last five years of employment. The Company's funding policy is to contribute annually the amount required to meet ERISA funding standards and to provide not only for benefits attributed to service to date but also for those anticipated to be earned in the future.

The components of net periodic pension cost are comprised of the following:

| (In thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Service cost - benefits earned in the period | $2,934 | $2,849 | $1,642 |
| Interest cost on projected benefit obligation | 1,496 | 1,174 | 811 |
| Investment return on plan assets | (1,252) | (917) | (631) |
| Net amortization and deferral | 760 | 922 | 303 |
| Net periodic pension cost | $3,938 | $4,028 | $2,125 |
| Assumptions used in each year of the actuarial computations were: | | | |
| Discount rate | 6.5% | 7.1% | 6.5% |
| Rate of increase in compensation levels | 5.5% | 5.5% | 5.5% |
| Expected long-term rate of return | 9.0% | 9.0% | 9.0% |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EMPLOYEE BENEFIT PLANS - CONTINUED

The following table sets forth the funded status of the Company's defined benefit plan.

| (In thousands) | 1997 | 1996 |
|---|---|---|
| Actuarial present value of: | | |
| Vested benefit obligation | $15,703 | $11,733 |
| Non-vested benefits | 3,131 | 3,011 |
| Accumulated benefit obligation | $18,834 | $14,744 |
| Actuarial present value of projected benefit obligation | $26,365 | $20,539 |
| Plan assets at fair value, primarily cash equivalents, U.S. Government securities and obligations, and publicly traded stocks and mutual funds | 16,246 | 14,152 |
| Projected benefit obligation in excess of plan assets | (10,119) | (6,387) |
| Unrecognized prior service cost | (677) | (812) |
| Unrecognized net obligation at transition | 212 | 225 |
| Unrecognized net loss | 7,868 | 7,059 |
| Prepaid pension cost | $ 2,716 | $ 85 |

SAVINGS PLAN

The Company has a savings plan with a 401(k) deferral feature and a Top Hat Plan with a similar deferral feature for all eligible employees. Provisions of $5,406,000, $4,161,000, and $2,551,000 have been charged to operations in fiscal 1996, 1995, and 1994, respectively.

LEASES

Leased property consists primarily of the Company's retail stores and certain warehouse space. Many of the store leases have rent escalations and provide that the Company pay for real estate taxes, utilities, liability insurance and maintenance. Certain leases provide for contingent rents, in addition to the fixed monthly rent, based on a percentage of store sales above a specified level. In addition, some leases provide options to extend the original terms for an additional two to twenty years. Minimum lease commitments as of January 31, 1998, are as follows:

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LEASES - CONTINUED

| (In thousands) | Capital Leases | Operating Leases |
|---|---|---|
| 1998 | $ 472 | $ 224,804 |
| 1999 | 472 | 194,315 |
| 2000 | 472 | 159,384 |
| 2001 | 472 | 127,053 |
| 2002 | 472 | 95,493 |
| Subsequent to 2002 | 4,204 | $ 284,200 |
| Total future minimum lease payments | 6,564 | $1,085,249 |
| Less: interest | 2,977 | |
| Present value of minimum lease payments | $3,587 | |

Total rental expense charged to continuing operations for operating leases of stores and warehouses consisted of the following:

| (In thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Minimum rentals | $271,211 | $204,277 | $101,844 |
| Contingent rents | 7,129 | 6,103 | 1,167 |
| | $278,340 | $210,380 | $103,011 |

STOCKHOLDERS' EQUITY

STOCK SPLIT

All references in the financial statements to average common shares outstanding and related prices, per share amounts, and stock option data have been restated to reflect 5 for 4 stock splits to stockholders of record on December 10, 1996, and June 10, 1997.

PUBLIC OFFERING OF COMMON STOCK

In June 1996, the Company issued 8,007,813, adjusted for the 5 for 4 splits, shares of common stock. Net proceeds to the Company totaled $190,639,000 and were utilized to repay a portion of the borrowings incurred to finance the acquisition of KB.

INCOME PER SHARE

There are no adjustments required to be made to income from continuing operations before extraordinary charge for purposes of computing basic and diluted income per share and there were no securities outstanding at January 31, 1998, which were excluded from the computation of income per share.

A reconciliation of the average number of common shares outstanding used in the basic and diluted income per share computation is as follows:

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STOCKHOLDERS' EQUITY - CONTINUED

| | Average Common Shares Outstanding | | |
|---|---|---|---|
| (In thousands) | 1997 | 1996 | 1995 |
| Basic | 107,621 | 104,642 | 98,185 |
| Dilutive effect of stock options | 4,442 | 3,760 | 2,460 |
| Diluted | 112,063 | 108,402 | 100,645 |

STOCKHOLDER RIGHTS PLAN

Each share of the Company's common stock has one Right attached. The Rights trade with the common stock and only become exercisable, or transferable apart from the common stock, ten business days after a person or group (Acquiring Person) acquires beneficial ownership of, or commences a tender or exchange offer for, 20% or more of the Company's common stock. Each Right, under certain circumstances, entitles its holder to acquire a fraction of a share of Series A Junior Participating Preferred Stock at a price of $35, subject to adjustment. If 20% of the Company's common stock is acquired, or a tender offer to acquire 20% of the Company's common stock is made, each Right not owned by an Acquiring Person will entitle the holder to purchase Company common stock having a market value of twice the exercise price of the Rights.

In addition, at any time the Rights are exercisable, in the event the Company is acquired in a merger or business combination (and is not the surviving entity) or more than 50% of the Company's assets, cash flow or earning power is sold or transferred, the Rights will entitle a holder to buy a number of shares of common stock of the acquiring company having a market value of twice the exercise price of each Right. The Rights may be redeemed by the Company at $.01 per Right at any time until the tenth day following public announcement that a 20% position has been acquired. The Rights expire on April 18, 1999, and at no time have voting power.

PREFERRED STOCK

In conjunction with the Stockholder Rights Plan the Company has reserved 600,000 shares of preferred stock for issuance thereunder.

STOCK PLANS

STOCK COMPENSATION PLANS

At January 31, 1998, the Company has two stock-based compensation plans, which are described below. Effective with the merger, and in accordance with the terms of the Mac Frugal's stock option plans, outstanding Mac Frugal's options were assumed by the Company and converted to options to purchase Company common stock at a ratio of .94 of one share of Mac Frugal's common stock for each share of Company common stock. The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for any options issued pursuant to any plan. The compensation cost that has been charged against income for the Restricted Stock Plan, which expired in 1997, was $7,037,000, $750,000 in 1996 and 1995, respectively. Had compensation cost for the Company's various option plans, including the pre merger effect of Mac Frugal's plans, been determined consistent with FASB Statement 123, the Company's net income and income per share would have been reduced to the pro forma amounts indicated below:

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STOCK PLANS - CONTINUED

| (In thousands except per share data) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Net income | | | |
| As reported | $85,935 | $127,066 | $78,965 |
| Pro forma | 82,999 | 123,267 | 77,263 |
| Income per common share: | | | |
| As reported | $0.80 | $1.21 | $0.80 |
| Pro forma | 0.77 | 1.18 | 0.79 |
| Income per common share - diluted: | | | |
| As reported | $0.77 | $1.17 | $0.78 |
| Pro forma | 0.74 | 1.14 | 0.77 |

FIXED STOCK OPTION PLANS

Consolidated Stores Corporation 1996 Performance Incentive Plan (Incentive Plan) provides for the issuance of stock options, restricted stock, performance units, stock equivalent units, and stock appreciation rights (SAR's). The number of newly issued shares of common stock available for issuance under the Incentive Plan is 3,125,000 plus an additional 1% of the total number of issued shares, including any Treasury Stock, at the start of the Company's fiscal year plus shares available but not issued in previous years of the Incentive Plan. Total newly issued shares of common stock available for use under the Incentive Plan shall not exceed 15% of the total issued and outstanding Common Stock as of any measurement date. A minimum of 10,468,750 shares of common stock are available for issuance and the term of each award is determined by a committee of the Board of Directors charged with administering the Incentive Plan. Stock options granted under the Incentive Plan may be either nonqualified or incentive stock options and the exercise price may not be less than the fair market value, as defined, of the underlying common stock on the date of award. The award price of a SAR is to be a fixed amount, not less than 100% of the fair market value of a share of common stock at the date of award. Upon an effective change in control of the Company all awards outstanding under the Incentive Plan automatically vest.

Prior to 1996 the Company had a Stock Option Plan (Plan) which expired in 1995. The Plan provided that all options be granted at an exercise price at least equal to the fair market value of the common stock at the date of grant. Options generally became exercisable one year following the original date of grant in five equal annual installments.

The Company has a Director Stock Option Plan (DSOP), for non-employee directors, pursuant to which up to 781,250 shares of the Company's common stock may be issued upon exercise of options granted thereunder. The DSOP is administered by the Compensation Committee of the Board of Directors pursuant to an established formula. Neither the Board of Directors, nor the Compensation Committee, exercise any discretion in administration of the DSOP. Grants are made annually, 90 days following the annual meeting of stockholders, at an exercise price equal to 100% of the fair market value on the date of grant. The present formula provides for an annual grant of 5,000 options to each non-employee director which becomes fully exercisable over a three year period, 20% the first year and 40% each subsequent year, beginning one year subsequent to grant.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STOCK PLANS - CONTINUED

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997, 1996 and 1995, respectively; no dividend yield for any year; expected volatility of 39%, 42% and 32%; risk-free interest rates of 5.3%, 6.0% and 4.9%; and expected lives of 2.2, 2.5 and 2.4 years.

A summary of the Company's various option plans, including the pre-merger plans of Mac Frugal's, as of January 31, 1998, February 1, 1997, and February 3, 1996, and changes during the fiscal years ended on those dates is presented below:

| (In thousands except price data) | 1997 | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| | Shares | Price(1) | Shares | Price(1) | Shares | Price(1) |
| Under option outstanding at beginning of year | 12,438,089 | $11.25 | 10,325,979 | $ 7.74 | 8,371,516 | $ 6.40 |
| Granted | 1,495,232 | 23.38 | 3,568,641 | 26.28 | 4,128,651 | 12.52 |
| Exercised | 1,522,745 | 13.19 | 1,210,784 | 10.23 | 1,344,569 | 4.03 |
| Forfeited | 1,700,517 | 23.58 | 245,747 | 13.52 | 829,619 | 11.47 |
| Under option at end of year | 10,710,059 | $14.31 | 12,438,089 | $11.25 | 10,325,979 | $ 7.74 |
| Options exercisable at end of year | 6,500,029 | | | | | |
| Weighted average fair value of options granted during the year | $5.64 | | | | | |

(1) Weighted average per share exercise price

The following table summarizes information about fixed stock options outstanding at January 31, 1998:

| Range of Prices | | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|---|
| Greater than | Less than or equal to | Number of Options Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number of Options Exercisable | Weighted Average Exercise Price |
| $ 1 | $10 | 3,273,563 | 3.2 | $ 4.34 | 3,234,045 | $ 4.29 |
| $10 | $20 | 4,088,163 | 6.9 | 12.04 | 2,205,364 | 12.12 |
| $20 | $30 | 3,236,491 | 8.9 | 26.38 | 1,060,620 | 26.56 |
| $30 | | 111,842 | 9.7 | 40.34 | | |
| | | 10,710,059 | 6.4 | $14.30 | 6,500,029 | $10.58 |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ADDITIONAL DATA

The following is a summary of certain financial data:

| (In thousands) | 1997 | 1996 |
|---|---|---|
| Property and equipment - at cost: | | |
| Land | $ 49,310 | $ 46,535 |
| Buildings | 205,758 | 191,012 |
| Fixtures and equipment | 687,962 | 611,860 |
| Transportation equipment | 28,536 | 21,698 |
| | 971,566 | 871,105 |
| Construction-in-progress | 18,827 | 1,605 |
| | 990,393 | 872,710 |
| Less accumulated depreciation | 376,915 | 319,120 |
| | $613,478 | $553,590 |

| (In thousands) | 1997 | 1996 |
|---|---|---|
| Accrued liabilities: | | |
| Salaries and wages | $ 89,022 | $ 99,078 |
| Property, payroll and other taxes | 42,801 | 27,254 |
| Other | 2,465 | 2,381 |
| | $134,288 | $128,713 |

The following analysis supplements changes in assets and liabilities presented in the consolidated statements of cash flows.

| (In thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Inventories | $ 64,272 | $(165,639) | $(104,728) |
| Other current assets | (12,832) | 8,608 | (6,129) |
| Accounts payable | (55,858) | 82,070 | 38,671 |
| Accrued liabilities | 5,575 | (12,135) | 5,068 |
| Income taxes | (39,533) | 57,462 | (9,056) |
| | $(38,376) | $ (29,634) | $ (76,174) |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## BUSINESS GROUP INFORMATION

Business group information follows:

| (In thousands) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Revenues: | | | |
| Closeout | $ 2,452,474 | $ 2,204,521 | $1,991,609 |
| Toys | 1,562,463 | 1,178,224 | 76,689 |
| Other | 40,365 | 37,419 | 42,652 |
| | $ 4,055,302 | $ 3,420,164 | $2,110,950 |
| Operating profit (loss): | | | |
| Closeout | $ 205,908 | $ 179,232 | $ 146,930 |
| Toys | 101,027 | 96,474 | 7,438 |
| Other and corporate (a) | (117,748) | (3,333) | 163 |
| | $ 189,187 | $ 272,373 | $ 154,531 |

(a) Fiscal 1997 includes $70,000 and $45,000 of inventory and merger related charges associated with the Mac Frugal's Bargains Close-outs, Inc. acquisition.

| | | | |
|---|---|---|---|
| Depreciation and amortization: | | | |
| Closeout | $ 54,438 | $ 47,044 | $43,584 |
| Toys | 24,648 | 15,358 | 534 |
| Other and corporate | 77 | 4,229 | 4,118 |
| | $ 79,163 | $ 66,631 | $48,236 |
| Capital expenditures: | | | |
| Closeout | $ 85,714 | $ 53,497 | $67,470 |
| Toys | 60,746 | 49,009 | 2,419 |
| Other and corporate | | 2,278 | 4,319 |
| | $146,460 | $104,784 | $74,208 |

Identifiable assets were comprised of the following:

| (In thousands) | 1997 | 1996 |
|---|---|---|
| Closeout | $1,118,119 | $1,028,773 |
| Toys | 604,893 | 619,688 |
| Other and corporate | 23,369 | 67,038 |
| | $1,746,381 | $1,715,499 |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for fiscal 1997 and 1996 is presented below:

| | Quarter | | | | |
|---|---|---|---|---|---|
| (In thousands, except per share data) | First | Second | Third | Fourth | Year |
| 1997(a) | | | | | |
| Net Sales | $778,338 | $801,306 | $859,559 | $1,616,099 | $4,055,302 |
| Gross profit | $317,365 | $334,479 | $367,556 | $ 600,469 | $1,619,869 |
| Net income (loss) | $ (1,324) | $ 5,781 | $ 13,622 | $ 67,856 | $ 85,935 |
| Income (loss) per common share (b) | $ (0.01) | $ 0.05 | $ 0.13 | $ 0.63 | $ 0.80 |
| Income (loss) per common share - diluted (b) | $ (0.01) | $ 0.05 | $ 0.12 | $ 0.60 | $ 0.77 |
| 1996(C) | | | | | |
| Net Sales | $481,101 | $690,499 | $771,802 | $1,476,762 | $3,420,164 |
| Gross profit | $205,514 | $282,176 | $330,044 | $ 621,627 | $1,439,361 |
| Income (loss): | | | | | |
| Continuing operations | $ 9,399 | $ (389) | $ 6,150 | $ 141,300 | $ 156,460 |
| Discontinued operations | (2,281) | (3,317) | (4,059) | (17,881) | (27,538) |
| Extraordinary charge | | (1,856) | | | (1,856) |
| Net income (loss) | $ 7,118 | $ (5,562) | $ 2,091 | $ 123,419 | $ 127,066 |
| Income (loss) per common share (b): | | | | | |
| Continuing operations | $ 0.10 | $ 0 | $ 0.06 | $ 1.32 | $ 1.49 |
| Discontinued operations | (0.03) | (0.03) | (0.04) | (0.17) | (0.26) |
| Extraordinary charge | | (0.02) | | | (0.02) |
| | $ 0.07 | $ (0.05) | $ 0.02 | $ 1.15 | $ 1.21 |
| Income (loss) per common share - diluted (b): | | | | | |
| Continuing operations | $ 0.09 | $ | $ 0.06 | $ 1.27 | $ 1.44 |
| Discontinued operations | (0.02) | (0.03) | (0.04) | (0.16) | (0.25) |
| Extraordinary charge | | (0.02) | | | (0.02) |
| | $ 0.07 | $ (0.05) | $ 0.02 | $ 1.11 | $ 1.17 |

(a) See Business Combinations for discussion of fourth quarter merger and other related charges and associated expenses included in cost of sales recorded in connection with the acquisition of Mac Frugal's.

(b) Income (loss) per share calculations for each quarter is based on the applicable weighted average shares outstanding for each period and may not necessarily be equal to the full year income (loss) per share amount.

(c) Includes the results of KB Toys from date of acquisition; May 5, 1996.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEMS 10-13

Pursuant to Instruction G(3) to Form 10-K, the information required in Items 10 - - 13 is incorporated by reference from the Company's definitive proxy statement which will be filed with the Commission pursuant to Regulation 14A on or about April 15, 1998.

Information regarding Executive Officers of the Company is furnished in a separate item captioned "Executive Officers of the Company" in Part I of this report.

PART IV

ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Index to Consolidated Financial Statements, Financial Statement Schedules and Exhibits



All other financial statements and schedules not listed in the preceding indexes are omitted as the information is not applicable or the information is presented in the consolidated financial statements or notes thereto.

(b) Reports on Form 8-K

| Date | Topic |
|---|---|
| November 5, 1997 | Announcement of Agreement and Plan of Merger among Consolidated, MBC Consolidated Acquisition Corporation and Mac Frugal's Bargains Close-outs, Inc. |
| January 16, 1998 | Announcement that on January 15, 1998, the stockholders of Consolidated Stores Corporation approved the share issuance pursuant to the terms of the Agreement and Plan of Merger, dated November 4, 1997, among Consolidated, MBC Consolidated Acquisition Corporation and Mac Frugal's Bargains Close-outs, Inc. and the subsequent consummation of the transaction on January 16, 1998. |

(c) Exhibits

Exhibits marked with an asterisk (*) are filed herewith.

| Exhibit No. | Document |
|---|---|
| 3(a) | Form of Restated Certificate of Incorporation of the Company (Exhibit 4(a) to the Company Registration Statement (No. 33-6086) on Form S-8 and incorporated herein by reference) |
| 3(b) | Amended and Restated By-laws of the Company (Exhibit 3(c) to the Company's Annual Report on Form 10-K for the year ended February 3, 1990, and incorporated herein by reference) |
| 3(c) | Amendment to By-laws dated April 14, 1992 (Exhibit 3(c) to the Company's Annual Report on Form 10-K for the year ended February 1, 1992, and incorporated herein by reference) |
| 4(a) | Specimen Stock Certificate (Exhibit 4(a) to the Company's Annual Report on Form 10-K for the year ended February 1, 1992, and incorporated herein by reference) |
| 4(b) | Summary of Rights to Purchase Preferred Stock (Exhibit 4(b) to the Company's Annual Report on Form 10-K for the year ended February 3, 1990, and incorporated herein by reference) |
| 4(c) | Rights Agreement between the Company and National City Bank (Exhibit 4(c) to the Company's Annual Report on Form 10-K for the year ended February 3, 1990, and incorporated herein by reference) |
| 4(d) | Form of Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Company (Exhibit 4(d) to the Company's Annual Report on Form 10-K for the year ended February 3, 1990, and incorporated herein by reference) |
| 10(a) | Consolidated Stores Corporation 1996 Performance Incentive Plan as Amended and Restated on July 23, 1996, (Exhibit 10(a) to the Company's Annual Report on Form 10-K for the year ended February 1, 1997, and incorporated herein by reference) |
| 10(b) | Consolidated Stores Corporation Directors Stock Option Plan (Exhibit 10(q) to the Company's Registration Statement (No. 33-42502) on Form S-8 and incorporated herein by reference) |
| 10(b)(i) | Consolidated Stores Corporation Amended and Restated Directors Stock Option Plan (Exhibit 10(c)(ii) to the Company's Annual Report on Form 10-K for the year ended February 1, 1992, and incorporated herein by reference) |

| Exhibit No. | Document |
|---|---|
| 10(c) | Consolidated Stores Corporation Supplemental Savings Plan (Exhibit 10(r) to the Company's Registration Statement (No. 33-42692) on Form S-8 and incorporated herein by reference) |
| 10(d) | CSIC Pension Plan and Trust dated March 1, 1976, (Exhibit 10(h)(ii) to the Company's Registration Statement (No. 2-97642) on Form S-1 and incorporated herein by reference) |
| 10(d)(i) | Amendment to CSIC Pension Plan and Trust (Exhibit 10(h)(ii) to the Company's Registration Statement (No. 2-97642) on Form S-1 and incorporated herein by reference) |
| 10(d)(ii) | Amendment No. 2 to CSIC Pension Plan and Trust (Filed as an Exhibit to the Company's Registration Statement (No. 33-6086) on Form S-8 and incorporated herein by reference) |
| 10(e) | Amended and Restated Credit Agreement dated as of May 3, 1996, by and among Consolidated Stores Corporation, an Ohio corporation (the "Borrower"), the BANKS (as defined), and The Bank of New York, in its capacity as Syndication Agent and as Managing Agent, National City Bank of Columbus, in its capacity as Administrative Agent ("Administrative Agent") and as Managing Agent, PNC Bank, Ohio, National Association, in its capacity as Arranger, as Documentation Agent (the "Documentation Agent") and as Managing Agent , Bank One, Columbus, N.A., in its capacity as Managing Agent, and National City Bank in its capacity as Managing Agent (Exhibit 10(d) to the Company's Annual Report on Form 10-K for the year ended February 1, 1997, and incorporated herein by reference) |
| 10(e)(i) | Amendment Number One to Amended and Restated Credit Agreement (Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 3, 1997, and incorporated herein by reference) |
| 10(f) | Transfer Agreement, dated as of May 9, 1997, among Consolidated Stores Corporation, an Ohio corporation, Nashua Hollis CVS, Inc., a New Hampshire corporation, The Bank of New York, a New York banking corporation, as Trustee, and each of the purchasers (as defined) (Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended August 2, 1997, and incorporated herein by reference) |
| 10(g) | Consolidated Stores Corporation, Note Agreement dated May 9, 1997, for $100,000,000 7% Senior Subordinated Notes Due May 4, 2000, (Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended August 2, 1997, and incorporated herein by reference) |
| 10(h) | Stock Purchase Agreement dated as of March 25, 1996, between Melville Corporation and Consolidated Stores Corporation relating to the purchase and sale of 100% of the Common Stock of Kay-Bee Center, Inc. (Exhibit B to the Company's Current Report on Form 8-K dated April 8, 1996, and incorporated herein by reference) |
| 10(h)(i) | Amendment No. 1 to Stock Purchase Agreement dated as of March 25, 1996, between Melville Corporation and Consolidated Stores Corporation relating to the purchase and sales of 100% of the Common Stock of Kay-Bee Center, Inc. (Exhibit 10 to the Company's Current Report on Form 8-K dated May 10, 1996, and incorporated herein by reference) |
| 10(i) | Agreement and Plan of Merger by and Among Consolidated Stores Corporation, MBC Consolidated Acquisition Corporation and Mac Frugal's Bargains Close-outs, Inc. dated as of November 4, 1997, (Exhibit 1 to the Company's Current Report on Form 8-K dated November 5, 1997, and incorporated herein by reference) |
| 10(j) | Employment Agreement with William G. Kelley (Exhibit 10(r) to the Company's Annual Report on Form 10-K for the year ended February 3, 1990, and incorporated herein by reference) |

| Exhibit No. | Document |
| --- | --- |
| 10(j)(i) | Amendment No. 1 to Employment Agreement with William G. Kelley (Exhibit 10(f)(i) to the Company's Annual Report on Form 10-K for the year ended February 3, 1996, and incorporated herein by reference) |
| 10(k) | Employment Agreement with Armen Bahadurian (Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 29, 1995, and incorporated herein by reference) |
| 10(l) | Employment Agreement with Charles Freidenberg (Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 29, 1995, and incorporated herein by reference) |
| 10(m) | Employment Agreement with Michael L. Glazer (Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 29, 1995, and incorporated herein by reference) |
| 10(n) | Employment Agreement with C. Matthew Hunnell (Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 29, 1995, and incorporated herein by reference) |
| 10(o) | Consulting Agreement, dated as of November 4, 1997, by and between Philip L. Carter and Consolidated Stores Corporation (Exhibit 2.2 to the Company's Registration Statement (No. 333-41143) (included in Joint Proxy Statement/Prospectus as Annex B) on Form S-4 and incorporated herein by reference) |
| 10(p) | Noncompetition Agreement, dated as of November 4, 1997, by and between Philip L. Carter and Consolidated Stores Corporation (Exhibit 2.3 to the Company's Registration Statement (No. 333-41143) (included in Joint Proxy Statement/Prospectus as Annex C) on Form S-4 and incorporated herein by reference) |
| 10(q) | Consolidated Stores Corporation Savings Plan and Trust, as amended and restated (Exhibit 10(q)(i) to the Company's Annual Report on Form 10-K for the year ended February 3, 1990, and incorporated herein by reference) |
| 10(r) | The Consolidated Stores Corporation Key Associate Annual Incentive Compensation Plan (Exhibit 10(n) to the Company's Annual Report on Form 10-K for the year ended February 1, 1997, and incorporated herein by reference) |
| 10(s) | Form of Executive Severance Agreement of the Company (Exhibit 10(s)(i) to the Company's Annual Report on Form 10-K for the year ended February 3, 1990, and incorporated herein by reference) |
| 10(t) | Consolidated Stores Executive Benefits Plan (Exhibit 10(t) to the Company's Annual Report on Form 10-K for the year ended February 3, 1990, and incorporated herein by reference) |
| 21* | List of subsidiaries of the Company |
| 23* | Consent of Deloitte & Touche LLP |
| 24 | Power of Attorney for William G. Kelley, Michael L. Glazer and Michael J. Potter (Exhibit 24 included in Part II of the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference) |
| 24.1 | Power of Attorney for David T. Kollat (Exhibit 24.1 to the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference) |
| 24.2 | Power of Attorney for Nathan P. Morton (Exhibit 24.2 to the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference) |

| Exhibit No. | Document |
|---|---|
| 24.3 | Power of Attorney for Dennis B. Tishkoff (Exhibit 24.4 to the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference) |
| 24.4 | Power of Attorney for William A. Wickham (Exhibit 24.5 to the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference) |
| 24.5 | Power of Attorney for Sheldon M. Berman (Exhibit 24.6 to the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference) |
| 24.6 | Power of Attorney for W. Eric Carlborg (Exhibit 24.6 to the Company's Registration Statement (No. 333-32063) on Form S-8 and incorporated herein by reference) |
| 24.7 | Power of Attorney for Brenda J. Lauderback (Exhibit 24.7 to the Company's Registration Statement (No. 333-32063) on Form S-8 and incorporated herein by reference) |
| 27* | Financial Data Schedule |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

| | | Additions | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Period | Charged to Cost and Expense | Charged to Other Accounts (2) | Deductions | Balance at End of Period |
| Fiscal year ended January 31, 1998: | | | | | |
| Inventory valuation allowance(1) | $11,826 | $92,812 | $ | $39,537 | $65,101 |
| Fiscal year ended February 1, 1997: | | | | | |
| Inventory valuation allowance(1) | 24,506 | 6,678 | 10,200 | 29,558 | 11,826 |
| Fiscal year ended February 3, 1996: | | | | | |
| Inventory valuation allowance(1) | 4,706 | 36,307 | | 16,507 | 24,506 |

(1) Applicable to continuing operations and consists primarily of reserve for markdowns of aged goods and similar inventory reserves.

(2) Value from company acquired.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on behalf by the undersigned, thereunto duly authorized.

CONSOLIDATED STORES CORPORATION

Date: April 21, 1998 By: /s/ William G. Kelley
William G. Kelley
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: April 21, 1998 /s/ William G. Kelley
William G. Kelley
Chairman of the Board and Chief Executive Officer

Date: April 21, 1998 /s/ Michael L. Glazer
Michael L. Glazer
President

Date: April 21, 1998 /s/ Michael J. Potter
Michael J. Potter
Executive Vice President, Chief Financial and Accounting Officer

Date: April 21, 1998

| | | |
|---|---|---|
| Sheldon M. Berman | William G. Kelley | Nathan Morton |
| W. Eric Carlborg | David T. Kollat | Dennis B. Tishkoff |
| Michael L. Glazer | Brenda J. Lauderback | William A. Wickham |
| Directors | Directors | Directors |

Albert J. Bell, by signing his name hereto, does hereby sign this Form 10-K pursuant to the Powers of Attorney executed by the Directors named, filed with the Securities and Exchange Commission on behalf of such Directors, all in the capacities indicated and on the date stated, such persons being a majority of the Directors of the Registrant.

/s/ Albert J. Bell
Albert J. Bell
Attorney-in-Fact

Dated: April 21, 1998

EXHIBIT 21

SUBSIDIARIES

| Company Name | Jurisdiction of Incorporation |
| --- | --- |
| Mac Frugal's Bargains Closeouts, Inc. | DE |
| PNS Stores, Inc. | CA |
| West Coast Liquidators, Inc. | CA |
| T. R. O., Inc. | IL |
| Consolidated Stores Corporation | OH |
| KB Consolidated, Inc. | OH |
| CSC Distribution, Inc. | AL |
| CS Ross Company | OH |
| Industrial Products of New England, Inc. | ME |
| Midwestern Home Products, Inc. | DE |
| Midwestern Home Products, LTD | OH |
| Tool and Supply Company of New England, Inc. | DE |
| SS Investments Corporation | DE |
| Kay-Bee Center, Inc. | CA |
| Southdale Kay-Bee Toy, Inc. | MN |
| Mall of America Kay-Bee Toy, Inc. | MN |
| Kay-Bee Toy & Hobby Shops, Inc. | MA |
| K B Toy of Alaska, Inc. | AK |
| K B Toy of Arkansas, Inc. | AR |
| K B Toy of Arizona, Inc. | AZ |
| K B Toy of California, Inc. | DE |
| K B Toy of Colorado, Inc. | CO |
| K B Toy of Connecticut, Inc. | CT |
| K B Toy of Florida, Inc. | FL |
| K B Toy of Hawaii, Inc. | NY |
| Ala Moana Kay-Bee Toy, Inc. | NY |
| K B Toy of Idaho, Inc. | ID |
| K B Toy of Massachusetts, Inc. | MA |
| K B Toy of Maryland, Inc. | MD |
| K B Toy of North Carolina, Inc. | VA |
| K B Toy of Nebraska, Inc. | NE |
| Pheasant Kay-Bee Toy, Inc. | NH |
| K B Toy of New Jersey, Inc. | NJ |
| K B Toy of Nevada, Inc. | NV |
| K B Toy of Ohio, Inc. | OH |
| K B Toy of Pennsylvania, Inc. | PA |
| K B Toy of South Dakota, Inc. | SD |
| K B Toy of Tennessee, Inc. | TN |
| KB Toy of Texas, Inc. | TX |
| K B Toy of Utah, Inc. | UT |
| K B Toy of Virginia, Inc. | VA |
| K B Toy of Washington, Inc. | WA |
| K B Toy of Wisconsin, Inc. | NY |

EXHIBIT 21

SUBSIDIARIES

| Company Name | Jurisdiction of Incorporation |
|---|---|
| K B Toy of Wyoming, Inc. | WY |
| Carolina Kay-Bee Toy, Inc. | NY |
| Las Americas Kay-Bee Toy, Inc. | NY |
| Rio Hondo Kay-Bee Toy, Inc. | NY |
| Centro Del Sur Kay-Bee Toy, Inc. | NY |
| Calle Betances Kay-Bee Toy, Inc. | NY |
| Bayamon Kay-Bee Toy, Inc. | NY |
| Cordero Ave. (Caguas) Kay-Bee Toy, Inc. | NY |
| Atocha Street Kay-Bee Toy, Inc. | NY |
| Fajardo State Rd. Kay-Bee Toy, Inc. | NY |
| Main Street (Yauco) Kay-Bee Toy, Inc. | NY |
| Mayaguez Kay-Bee Toy, Inc. | NY |
| Aguadilla Kay-Bee Toy, Inc. | NY |
| Plaza Del Caribe Kay-Bee Toy, Inc. | NY |
| Montehiedra Kay-Bee Toy, Inc. | NY |
| Kay-Bee Isabela, Inc. | OH |
| Kay-Bee Palma Real, Inc. | OH |
| Kay-Bee Del Norte, Inc. | OH |
| Kay-Bee Guayama, Inc. | OH |
| Kay-Bee Carolina, Inc. | OH |
| Kay-Bee Plaza Del Atlantico, Inc. | OH |
| Kay-Bee Caguas Centrum, Inc. | OH |
| Kay-Bee Playa Del Sol, Inc. | OH |
| Kay-Bee Western Plaza, Inc. | OH |
| Kay-Bee De Diego Street, Inc. | OH |
| KB Toy Distribution South, Inc. | AL |
| Cottenwood Kay-Bee Toy, Inc. | NM |
| Consolidated Property Holdings, Inc. | NV |
| KB Holdings, Inc. | NV |
| Barn Acquisition Corporation | DE |
| Fashion Barn, Inc. | NY |
| Fashion Barn of New Jersey, Inc. | NJ |
| Fashion Barn of Florida, Inc. | FL |
| Fashion Barn of Indiana, Inc. | IN |
| Fashion Barn of Pennsylvania, Inc. | PA |
| Fashion Barn of Oklahoma, Inc. | OK |
| Fashion Barn of Texas, Inc. | TX |
| Fashion Barn of Ohio, Inc. | OH |
| Fashion Outlets Corp. | NY |
| Fashion Barn of Vermont, Inc. | VT |
| Fashion Barn of Virginia, Inc. | VA |
| Fashion Barn of South Carolina, Inc. | SC |
| Fashion Barn of North Carolina, Inc. | NC |
| Fashion Barn of West Virginia, Inc. | WV |

EXHIBIT 21

SUBSIDIARIES

| Company Name | Jurisdiction of Incorporation |
| --- | --- |
| Fashion Bonanza, Inc. | NY |
| Rogers Fashion Industries, Inc. | NY |
| Saddle Brook Distributors, Inc. | NY |
| DTS, Inc. | NY |
| Fashion Barn of Missouri, Inc. | MO |
| Fashion Barn, Inc. | MA |
| Fashion Barn of Georgia | GA |

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We hereby consent to the incorporation by reference in (i) Registration Statement No. 33-42502 on Form S-8 pertaining to Consolidated Stores Corporation Director Stock Option Plan (ii) Registration Statement No. 33-42692 on Form S-8 pertaining to Consolidated Stores Corporation Supplemental Savings Plan (iii) Post Effective Amendment No. 2 to Registration Statement No. 33-6068 on Form S-8 pertaining to Consolidated Stores Corporation Executive Stock Option and Stock Appreciation Rights Plan (iv) Post Effective Amendment No. 1 to Registration Statement No. 33-19378 on Form S-8 pertaining to Consolidated Stores Corporation Savings Plan (v) Post Effective Amendment No. 2 to Registration Statement No. 333-2545 on Form S-3 pertaining to the issuance of Consolidated Stores Corporation Common Shares (vi) Registration Statement No. 333-32063 on Form S-8 pertaining to Consolidated Stores Corporation 1996 Performance Incentive Plan and (vii) Registration Statement No. 333-41143 on Form S-4 pertaining to the issuance of Consolidated Stores Corporation Common Shares of our report dated March 2, 1998, appearing in this Annual Report on Form 10-K of Consolidated Stores Corporation for the year ended January 31, 1998.

Deloitte & Touche LLP

Dayton, Ohio

April 21, 1998

This schedule contains summary financial data extracted from Consolidated Stores Corporation and Subsidiaries Consolidated Financial Statements filed in Form 10-K as of January 31, 1998, and the fiscal year then ended, and is qualified in its entirety by reference to such financial statements.

YEAR
JAN-31-1998
FEB-02-1997
JAN-31-1998
41,714
0
9,342
0
910,668
1,107,474
990,393
376,915
1,746,381
525,268
115,281
0
0
1,078
1,033,464
1,746,381
4,055,302
4,055,302
2,435,433
3,821,115
46,307
0
25,691
162,189
76,254
85,935
0
0
0
85,395
0.80
0.77