SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

# FORM 10-Q

Quarterly report filed pursuant to section 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 2, 1996    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

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 [ ]

The number of shares of Common Stock $.01 par value per share,outstanding as of December 4, 1996, was 53,494,673 and there were no shares of Nonvoting Common Stock, $.01 par value per share outstanding at that date.

CONSOLIDATED STORES CORPORATION
QUARTERLY REPORT ON FORM 10-Q

INDEX

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

| | November 2, 1996 | February 3 1996* |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 36,825 | $ 12,999 |
| Accounts receivable | 10,941 | 8,957 |
| Inventories | 1,063,410 | 388,346 |
| Prepaid expenses and deferred income taxes | 89,944 | 41,714 |
| Total current assets | 1,201,120 | 452,016 |
| Property and equipment - net | 370,557 | 177,323 |
| Other assets | 27,692 | 10,476 |
| | $ 1,599,369 | $ 639,815 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 439,643 | $ 129,223 |
| Accrued liabilities | 39,577 | 41,519 |
| Income taxes | 9,097 | 17,416 |
| Notes payable and current maturities of long-term obligations | 30,285 | 10,000 |
| Total current liabilities | 518,602 | 198,158 |
| Long-term obligations | 456,368 | 25,000 |
| Deferred income taxes and other noncurrent liabilities | 40,228 | 27,093 |
| Stockholders' equity: | | |
| Preferred stock - authorized 2,000,000 shares, $.01 par value; none issued | -- | -- |
| Common stock - authorized 90,000,000 shares, $.01 par value; issued 53,378,316 and 47,775,958 shares respectively | 534 | 478 |
| Non-voting common stock - authorized 8,000,000 shares, $.01 par value; none issued | -- | -- |
| Additional paid-in-capital | 307,124 | 104,511 |
| Retained earnings | 277,115 | 285,105 |
| Other adjustments | (602) | (530) |
| Total stockholders' equity | 584,171 | 389,564 |
| | $ 1,599,369 | $ 639,815 |

* Condensed from audited financial statements

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

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | THIRTEEN WEEKS ENDED November 2, 1996 | THIRTEEN WEEKS ENDED October 28, 1995 | THIRTY-NINE WEEKS ENDED November 2, 1996 | THIRTY-NINE WEEKS ENDED October 28, 1995 |
|---|---|---|---|---|
| Net sales | $ 616,511 | $ 357,538 | $ 1,511,143 | $ 974,449 |
| Cost and expenses: | | | | |
| Cost of sales | 353,520 | 204,100 | 877,206 | 560,053 |
| Selling and administrative expenses | 262,206 | 134,161 | 630,848 | 373,456 |
| Interest expense | 6,954 | 2,844 | 14,494 | 6,063 |
| Other - net | (1,376) | 72 | (1,668) | (434) |
| | 621,304 | 341,177 | 1,520,880 | 939,138 |
| Income (loss) before income taxes and extraordinary item | (4,793) | 16,361 | (9,737) | 35,311 |
| Income expense (benefit) | (1,774) | 6,217 | (3,603) | 13,418 |
| Income (loss) before extraordinary item | (3,019) | 10,144 | (6,134) | 21,893 |
| Extraordinary item | -- | -- | (1,856) | -- |
| Net income (loss) | ($3,019) | $ 10,144 | ($7,990) | $ 21,893 |
| Income (loss) per common and common equivalent share: | | | | |
| Income (loss) before extraordinary item | ($0.05) | $ 0.21 | ($0.12) | $ 0.45 |
| Extraordinary item | -- | -- | (0.03) | -- |
| Net income (loss) | ($0.05) | $ 0.21 | ($0.15) | $ 0.45 |
| Weighted average common and common equivalent shares outstanding | 55,536 | 49,111 | 53,153 | 48,805 |

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

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | THIRTY-NINE WEEKS ENDED November 2, 1996 | THIRTY-NINE WEEKS ENDED October 28, 1995 |
|---|---|---|
| Cash provided by (used for) operations: | | |
| Net income (loss) | $ (7,990) | $ 21,893 |
| Adjustments to net income (loss) to arrive at cash used by operations: | | |
| Extraordinary item, net | 1,856 | -- |
| Depreciation and amortization | 36,149 | 21,893 |
| Deferred income taxes | (14,037) | (4,006) |
| Other | 6,358 | 2,063 |
| Change in assets and liabilities net of effect from acquired business | (272,330) | (173,104) |
| Net cash used for operations | (249,994) | (131,261) |
| Cash provided by (used for) investment activities: | | |
| Payment for acquired business | (185,300) | -- |
| Capital expenditures | (70,337) | (31,011) |
| Other | 5,803 | 3,638 |
| Net cash used for investment activities | (249,834) | (27,373) |
| Cash provided by (used for) financing activities: | | |
| Proceeds from issuance of common stock | 190,647 | -- |
| Proceeds from credit agreements, net | 375,000 | 137,100 |
| Payment of senior notes and long-term obligations | (35,162) | (10,000) |
| Debt issue payments | (10,393) | -- |
| Extinguishment of debt | (2,946) | -- |
| Proceeds from exercise of stock options | 3,299 | 4,392 |
| Increase in deferred credits | 3,209 | 1,490 |
| Net cash provided by financing activities | 523,654 | 132,982 |
| Increase (decrease) in cash | $ 23,826 | $ (25,652) |
| Supplemental Data | | |
| Income taxes paid | $ 15,158 | $ 23,524 |
| Interest paid | 10,047 | 7,668 |
| Supplemental Disclosure of Non Cash Transactions | | |
| Issuance of subordinated notes - Note 4 | | |

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

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated balance sheet at November 2, 1996, and the condensed consolidated statements of income and statements of cash flows for the thirteen and thirty-nine week periods ended November 2, 1996, have been prepared by the Company without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations, and cash flows at November 2, 1996, and for the thirteen and thirty-nine week periods presented have been made. Such adjustments consisted only of normal recurring items.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principals have been omitted or condensed. It is suggested that the condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report for the year ended February 3, 1996. The results of operations for the period ended November 2, 1996, may not necessarily be indicative of the operating results for the full year.

## NOTE 2 - EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

Earnings per common and common equivalent share are based on the weighted average number of shares outstanding during each period which includes the additional number of shares which would have been issued upon exercise of stock options assuming that the Company used the proceeds received to purchase additional shares at market value.

## NOTE 3 - STOCK OFFERING

As of June 10, 1996, the Company completed an offering of 5,125,000 shares of common stock, including a underwriters' over-allotment of 125,000 shares. Net proceeds to the Company were approximately $190.6 million

## NOTE 4 - ACQUISITION OF KAY-BEE CENTER, INC.

As of May 5, 1996, the Company acquired Kay-Bee Center, Inc. (KAY-BEE) 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, issued to Melville Corporation. 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 transaction is accounted for as a purchase. At May 5, 1996, KAY-BEE operated 1,045 toy stores located in all 50 states and Puerto Rico primarily under the names Kay-Bee Toys and Toy Works.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - ACQUISITION OF KAY-BEE CENTER, INC. - CONTINUED

The unaudited pro forma summary of operations data for each of the thirty-nine week periods ended November 2, 1996, and October 28, 1995, and the thirteen week period ended October 28, 1995, have been prepared by combining the consolidated statements of earnings of Consolidated Stores Corporation and Subsidiaries for each of the periods presented with the consolidated statements of operations for the respective thirteen week period ended March 30, 1996, and thirty-nine week period ended July 29, 1995, of KAY-BEE, as well as, the estimated purchase price allocation in accordance with APB 16, the financing, and the issuance of Common Stock.

| | Thirteen weeks ended | Thirty-nine weeks ended | |
|---|---|---|---|
| | October 28, 1995 | November 2, 1996 | October 28, 1995 |
| | (In thousands, except loss per share data) | | |
| Net sales | $538,155 | $1,687,533 | $1,486,451 |
| Operating income (loss) | 3,746 | (19,167) | (15,754) |
| Net loss | (1,533) | (24,018) | (17,907) |
| Net loss per common and common equivalent share (1) | (0.03) | (0.43) | (0.33) |

(1) Adjusted to reflect issuance of 5,125,000 shares of Common Stock

NOTE 5 - EXTRAORDINARY ITEM

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

NOTE 6 - SUBSEQUENT EVENT

On November 19, 1996, the Board of Directors declared and authorized a 5 for 4 stock split of the Company's $.01 par value voting common stock to be effected by a distribution of additional shares on December 24, 1996, to stockholders of record on December 10, 1996.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS

TRENDS. The Company is the nation's largest close-out retailer, with 1,981 stores located in all 50 states and Puerto Rico. As a value retailer specializing in close-out merchandise and toys the Company operates 796 retail close-out and specialty stores under the names ODD LOTS/BIG LOTS, ITZADEAL! and ALL FOR ONE in the midwestern, southern and mid-Atlantic regions of the United States. Additionally, 1,185 retail toy and close-out toy stores were in operation throughout the United States and Puerto Rico under the names KAY-BEE, TOY WORKS and TOY LIQUIDATORS. As more fully described below, on May 5, 1996, the Company acquired 1,045 KAY-BEE and TOY WORKS retail toy stores. The Company believes that KAY-BEE is the largest enclosed mall-based toy retailer in the United States.

The table below compares components of the statements of earnings of the Company as a percent to net sales and reflects the number of retail stores in operation at the end of each period.

| | Thirteen weeks ended November 2, 1996 | Thirteen weeks ended October 28, 1995 | Thirty-nine weeks ended November 2, 1996 | Thirty-nine weeks ended October 28, 1995 |
|---|---|---|---|---|
| | (Percent to total net sales) | | | |
| Net sales: | | | | |
| Close-out and specialty | 58.6% | 91.6% | 67.3% | 92.8% |
| Toys | 39.6 | 5.1 | 30.8 | 4.2 |
| Other | 1.7 | 3.3 | 1.9 | 3.0 |
| | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of sales | 57.3 | 57.1 | 58.0 | 57.5 |
| Gross profit | 42.7 | 42.9 | 42.0 | 42.5 |
| Selling and administrative expenses | 42.5 | 37.5 | 41.7 | 38.3 |
| Operating profit (loss) | 0.2 | 5.4 | 0.3 | 4.2 |
| Interest expense | 1.1 | 0.8 | 1.0 | 0.6 |
| Other income | (0.2) | -- | (0.1) | -- |
| Income (loss) before income taxes and extraordinary item | (0.7) | 4.6 | (0.6) | 3.6 |
| Income tax expense (benefit) | (0.3) | 1.7 | (0.2) | 1.4 |
| Income (loss) before extraordinary item | (0.4) | 2.9 | (0.4) | 2.2 |
| Extraordinary item | -- | -- | (0.1) | -- |
| Net income (loss) | (0.4)% | 2.9% | (0.5)% | 2.2% |

| | November 2, 1996 | October 28, 1995 |
|---|---|---|
| Retail stores in operation at end of period: | | |
| Close-out and specialty | 796 | 742 |
| Toys | 1,185 | 103 |
| | 1,981 | 845 |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - CONTINUED

The Company has historically experienced seasonal fluctuations with a significant percentage of its net sales and income being realized in the fourth fiscal quarter. The Company's quarterly results can also 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. Historically, the Company has generally recorded operating profits during each fiscal quarter. Due to the increase in the Company's retail toy operations as a result of the KAY-BEE acquisition on May 5, 1996, it is anticipated operating losses will be recognized during the first three fiscal quarters and a increasing amount of net sales, operating profit and net income will be recognized in the fourth fiscal quarter. Quarterly fluctuations in inventory balances are normal reflecting the opportunistic purchases available at any given time and the expansion of the Company's store base. Historically, on a per store basis, inventory levels are lower at the end of the Company's fiscal year and build through the remaining three quarters of the year to a peak level in the third quarter. Accounts payable generally follow a trend similar to inventories.

SALES. Net sales for the thirteen and thirty-nine week periods ended November 2, 1996, increased 72.4% and 55.1%, respectively. Comparable store sales for stores open two years at the beginning of the fiscal year increased 5.6% for the quarter and 4.7% for the year to date period. The sales improvement reflects the greater number of close-out and specialty stores in operation during the period and the sales performance of KAY-BEE acquired at the start of the second quarter of fiscal 1996.

Net sales by operating unit were as follows:

| Operating Unit | Thirteen weeks ended November 2, 1996 | Thirteen weeks ended October 28, 1995 | Percentage Change |
|---|---|---|---|
| | (In thousands) | | |
| Close-out and specialty | $361,528 | $327,652 | 10.3% |
| Toys | 244,328 | 18,102 | 1,249.7 |
| Other | 10,655 | 11,784 | (9.6) |
| | $616,511 | $357,538 | 72.4% |

| Operating Unit | Thirty-nine weeks ended November 2, 1996 | Thirty-nine weeks ended October 28, 1995 | Percentage Change |
|---|---|---|---|
| | (In thousands) | | |
| Close-out and specialty | $1,016,412 | $904,295 | 12.4% |
| Toys | 466,065 | 40,744 | 1,043.9 |
| Other | 28,666 | 29,410 | (2.5) |
| | $1,511,143 | $974,449 | 55.1% |

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - CONTINUED

GROSS PROFIT. Gross profit as a percent of net sales was 42.7% for the third quarter of fiscal 1996 compared to 42.9% in the same 1995 period. The decline in gross profit percentage primarily reflects slightly higher markdowns and lower initial markups experienced by the close-out and specialty operating units. Gross profit was 42.0% and 42.5% for the first nine months of fiscal 1996 and 1995, respectively.

SELLING AND ADMINISTRATIVE EXPENSES. As a percent to net sales, selling and administrative expenses were 42.5% and 37.5% in the third quarter of fiscal 1996 and 1995 respectively, and 41.7% and 38.3% in each of the year to date periods. These increases are primarily attributable to the effect from store operating expenses of KAY-BEE which are anticipated to be greater as a percent to sales in the first three fiscal quarters than historically reported by the Company.

INTEREST EXPENSE. Interest expense increased $4.1 million in the third quarter of 1996 and rose $8.4 million for the year. These increases result from higher weighted average borrowing outstanding for the respective periods, principally associated with operating requirements of KAY-BEE, as well as an increase in the effective borrowing rate.

INCOME TAXES. The effective tax rate of the Company is 37.0% in 1996 compared to 38.0% in 1995. The reduction in the effective tax rate is principally attributable to the recognition of tax planning benefits for state and local income taxes. Included in the calculation of the Company's effective tax rate is the recognition of benefits of a corporate-owned life insurance program established in 1994. During the third quarter of 1996 Federal legislation was passed which, among other matters, limits the interest deduction associated with corporate-owned life insurance. The Company is terminating its participation in the corporate-owned life insurance program and does not anticipate an increase in the effective tax rate for 1996 as a result of this action.

ACQUISITION OF KAY-BEE. Pursuant to a Stock Purchase Agreement dated March 25, 1996, Consolidated Stores Corporation acquired from Melville Corporation (Melville) all of the issued and outstanding common stock of KAY-BEE, a California corporation and a holding company for approximately 800 subsidiaries, operating 1,045 retail toy stores. Consolidated Stores effected the acquisition through KB Consolidated, Inc., a newly formed subsidiary of the Company. The acquisition was effective as of 12:01 a.m. on May 5, 1996.

The initial purchase price for all of the KAY-BEE common stock was approximately $315 million, subject to a post-closing adjustment based on an audit of KAY-BEE's balance sheet. The initial purchase price was comprised of $215 million in cash and $100 million of subordinated notes by the Company to Melville. The initial purchase price payment was based on the estimated net book value of KAY-BEE as of December 31, 1995. 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.

Under the Stock Purchase Agreement, Melville made standard representations, warranties and covenants.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity for the Company has been cash flow from operations and borrowings under available credit facilities.

Concurrent with the acquisition of KAY-BEE the Company terminated its existing revolving credit agreement and entered into a Revolving Credit Facility dated May 3, 1996, as amended June 28, 1996, with a syndicate of financial institutions to provide senior bank financing in an aggregate principal amount of up to $600 million. The Revolving Credit Facility consists of a revolving loan facility (the "Revolver") with the amount available thereunder equal to $450 million and a letter of credit facility with up to $200 million available for the issuance of documentary and standby letters of credit. The facility has a maturity date of May 3, 1999. At May 4, 1996, the Company borrowed $320 million under the Revolver to finance the acquisition of KAY-BEE and repay certain existing indebtedness under the prior revolving credit agreement and senior notes. At November 2, 1996, approximately $106 million was available for direct borrowings under the Revolving Credit Facility.

Additionally, from time-to-time the Company utilizes uncommitted credit facilities, subject to terms of the Revolving Credit Facility, to supplement short-term borrowing requirements.

In connection with the acquisition of KAY-BEE the Company issued $100 million of Subordinated Notes. The Subordinated Notes mature in 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.

In the second quarter of 1996 the Company completed an offering of 5,125,000 shares of common stock, including a underwriters' over-allotment of 125,000 shares. Net proceeds to the Company of approximately $190.6 million were utilized to repay a portion of the borrowings incurred to finance the acquisition of KAY-BEE.

The Company's capital structure has changed significantly from the issuance of common stock and increased credit facilities. The Company continues to believe that it will have 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.

## PART II - OTHER INFORMATION

Item 1. Legal Proceedings. Not applicable.

Item 2. Changes in Securities. Not applicable.

Item 3. Defaults Upon Senior Securities. Not applicable.

Item 4. Submission of Matters to Vote of Security Holders.

No matter was submitted during the third quarter of the fiscal year covered by this report to a vote of security holders.

Item 5. Other Information. Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits. None

| Exhibit No. | Document |
|---|---|
| 27 | Financial Data Schedule |

(b) Reports on Form 8-K. None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSOLIDATED STORES CORPORATION
(Registrant)

Dated: December 4, 1996

By: /s/ Michael J. Potter
Michael J. Potter,
Sr. Vice President, Chief
Financial Officer, and
Principal Accounting Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL DATA EXTRACTED FROM CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS FILED IN FORM 10Q AS OF NOVEMBER 2, 1996 AND THE THIRTEEN AND THIRTY-NINE WEEK PERIODS THEN ENDED, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS
FEB-1-1997
FEB-4-1996
NOV-2-1996
36,825
0
10,941
0
1,063,410
1,201,120
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(7,990)
(0.15)
(0.15)