AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 22, 1996

REGISTRATION NO. 333-2545

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20459

AMENDMENT NO. 2

TO

FORM S-3
REGISTRATION STATEMENT
UNDER

THE SECURITIES ACT OF 1933

CONSOLIDATED STORES CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

06-1119097
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

300 PHILLIPI ROAD, P.O. BOX 28512
COLUMBUS, OHIO 43228-0512
(614) 278-6800

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

ALBERT J. BELL, ESQ.
300 PHILLIPI ROAD, P.O. BOX 28512
COLUMBUS, OHIO 43228-0512

(614) 278-6800

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copies to:

MICHAEL WAGER, ESQ.
BENESCH, FRIEDLANDER, COPLAN & ARONOFF P.L.L.
2300 BP AMERICA BUILDING
200 PUBLIC SQUARE
CLEVELAND, OHIO 44114-2378

DAVID J. BEVERIDGE, ESQ.
SHEARMAN & STERLING
599 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:

As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered pursuant to a dividend or interest reinvestment plan, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Common Stock, par value $.01 per share	5,750,000	$37.38	$196,299,250	$67,690

(1) Includes 750,000 shares subject to an option granted to the Underwriters to cover any over-allotments.

(2) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rule 457(c) under the Securities Act of 1933, as amended, the registration fee applicable to the Common Stock is calculated upon the basis of the average high and low prices of the Common Stock as reported on the New York Stock Exchange Composite Tape on May 16, 1996.

(3) Of the 5,750,000 shares being registered (i) 4,025,000 shares were registered in connection with the original filing of this registration statement at a proposed maximum aggregate offering price of $131,818,750 and a registration fee of $45,455 and (ii) 1,725,000 additional shares are being registered by this filing at a proposed maximum aggregate offering price of $64,480,500 and a registration fee of $22,235.

(4) Includes $45,455 previously paid in connection with this transaction.

THIS REGISTRATION STATEMENT SHALL HEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED MAY 22, 1996

PROSPECTUS

5,000,000 SHARES

[LOGO] CONSOLIDATED STORES CORPORATION

COMMON STOCK

All of the 5,000,000 shares of common stock (the "Common Stock") offered hereby (the "Offering") are being issued and sold by Consolidated Stores Corporation. The Common Stock is traded on the New York Stock Exchange under the symbol "CNS." On May 21, 1996, the last reported sale price of the Common Stock on the New York Stock Exchange was $39 3/8 per share. See "Price Range of Common Stock."

SEE "RISK FACTORS" BEGINNING ON PAGE 9 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share..........................	$	$	$
Total (3)..........................	$	$	$

(1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including certain liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting expenses of the Offering payable by the Company estimated at $750,000.

(3) The Company has granted the Underwriters an option, exercisable within 30 days after the date of this Prospectus, to purchase up to an additional 750,000 shares of Common Stock, to cover over-allotments, if any. If such option is exercised in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are offered by the Underwriters, subject to prior sale, when, as and if issued to and accepted by them and subject to approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject any order in whole or in part. It is expected that delivery of the shares of Common Stock will be made in New York, New York on or about , 1996.

MERRILL LYNCH & CO.

MONTGOMERY SECURITIES

MCDONALD & COMPANY

SECURITIES, INC.

The date of this Prospectus is   , 1996.

[PHOTOS]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus and the documents incorporated herein by reference. Unless otherwise indicated, (i) all references in this Prospectus to the "Company" are to Consolidated Stores Corporation, a Delaware corporation, and its subsidiaries, (ii) all references in this Prospectus to "Consolidated Stores" are to the Company prior to the acquisition of Kay-Bee Center, Inc., (iii) all references in this Prospectus to "Kay-Bee" are to Kay-Bee Center, Inc., a California corporation and a subsidiary of the Company acquired in May 1996, and (iv) all the information in this Prospectus assumes that the over-allotment option granted to the Underwriters has not been exercised. Unless otherwise indicated, references herein to fiscal years of the Company are to the Company's 52- or 53-week fiscal year (which ends on the Saturday nearest to January 31 in the following calendar year). For example, "fiscal 1995" refers to the Company's fiscal year ended February 3, 1996. References herein to fiscal years of Kay-Bee are to Kay-Bee's historical fiscal year, which ended on December 31 of each calendar year. Odd Lots, Big Lots, iTZADEAL!, All For One, Toy Liquidators, The Amazing Toy Store, Kay-Bee Toys and Toy Works are trademarks of the Company. Certain of the information contained in this summary and elsewhere in this Prospectus, including information with respect to the realization of synergies from the acquisition of Kay-Bee and the Company's growth strategy, are forward looking statements. For a discussion of important factors that could affect such matters, see "Risk Factors."

THE COMPANY

The Company is the nation's largest close-out retailer with 1,906 stores located in all 50 states and Puerto Rico. The Company operates 750 retail close-out stores, primarily under the names Odd Lots and Big Lots (together, "Odd Lots/Big Lots"), iTZADEAL! and All For One, in the midwestern, southern and mid-Atlantic regions of the United States, and 1,156 retail toy stores throughout the United States and Puerto Rico, primarily under the names Kay-Bee Toys, Toy Works, The Amazing Toy Store and Toy Liquidators (collectively, the "Toy Stores"). Approximately 1,045 of the Toy Stores were acquired as of May 5, 1996 in the acquisition (the "Acquisition") of Kay-Bee Center, Inc. from Melville Corporation ("Melville").

As a value retailer focused on close-out 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 close-out stores typically offer merchandise at prices 15% to 35% below those offered by other discount retailers and up to 70% below those offered by traditional retailers. The Company's close-out stores offer 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. In addition, these stores supplement their broad offering of items in core product categories with a changing mix of new merchandise and seasonal goods such as back-to-school and holiday merchandise. The Toy Stores offer a broad variety of close-out toys, as well as currently promoted retail toys (known as "in-line toys") and traditional toy merchandise. The Company's name-brand close-out merchandise primarily consists of products obtained from manufacturers' excess inventories, which generally result from production overruns, package changes, discontinued products and returns.

The Company's goal is to build upon its leadership position in close-out retailing, a fast-growing segment of the retailing industry, by expanding its market presence in its existing and in new markets. The Company has adopted a business strategy of pursuing growth by capitalizing on the following competitive strengths: (i) its ability to offer name-brand products at discounted prices; (ii) its purchasing expertise and strong buying relationships; (iii) its ability to lease low-cost store sites in strip shopping centers, enclosed shopping malls and outlet malls on favorable terms; (iv) its ability to efficiently warehouse and distribute large quantities of merchandise; and (v) its focus on cost control.

Over the past five fiscal years, Consolidated Stores has experienced substantial growth in net sales, operating profit and earnings per share. Net sales have increased from $771.5 million in fiscal 1991 to $1,512.3 million in fiscal 1995, a compound annual growth rate of 18.3%. This growth has been driven by new store openings and comparable store sales gains. Consolidated Stores has increased the number of its stores from

337 to 861 during this five-year period, while total retail selling space increased from approximately 7,000,000 square feet to approximately 12,000,000 square feet, a compound annual growth rate of approximately 14.4%. Merchandising improvements have increased average sales per square foot from approximately $109 in fiscal 1991 to approximately $127 in fiscal 1995. Comparable store sales increases were 5.6%, 4.3%, 1.8%, 3.5% and 4.3% in fiscal 1991, 1992, 1993, 1994 and 1995, respectively. Consolidated Stores also has achieved profitability improvements with operating margins increasing from 5.0% in fiscal 1991 to 7.4% in fiscal 1995 and earnings per share increasing from $.44 per share to $1.32 per share during such period.

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. The Company's growth strategy is to increase net sales and earnings through:

- New Store Expansion. The Company intends to increase retail selling space by approximately 10% to 15% per fiscal year. Currently, the Company's stores are located primarily in the midwestern, southern and mid-Atlantic regions of the United States. Management believes there are substantial opportunities to increase the store count in the Company's existing markets. In addition, the Company believes the southwestern and western areas of the United States have significant longer-term growth potential because the Company has few stores in these regions. In fiscal 1996, net of store closings, the Company expects to open 65 to 75 new Odd Lots/Big Lots stores, 50 to 70 new Toy Stores and 10 new iTZADEAL! stores.

- Comparable Store Sales Increases. The Company seeks to increase comparable store sales through an expansion of certain key merchandise categories and gradual modification of its merchandise mix to include a greater percentage of items with higher average retail price points as well as an increased use of television advertising and improvements to its current inventory management system.

- Realization of Kay-Bee Acquisition Synergies. The Company believes there are several strategic benefits that can be achieved as a result of the Acquisition. The Company expects that its increased purchasing power resulting from the Acquisition will enhance its ability to source high-quality close-out toys for all of its stores at competitive prices. In addition, the Company intends to (i) gradually increase the percentage of higher-margin close-out toys at the Kay-Bee stores and (ii) pursue the elimination of duplicative administrative expenses resulting from the Acquisition.

- Selective Acquisitions. The Company believes that the current consolidation of retailers will present opportunities for strategic acquisitions. Although the Company is not currently considering any acquisitions, it intends to review acquisitions in the future as opportunities arise.

THE ACQUISITION OF KAY-BEE

As of May 5, 1996, Consolidated Stores acquired Kay-Bee for a purchase price of approximately $315 million (subject to post-closing adjustments), consisting of $215 million in cash and $100 million of senior subordinated promissory notes (the "Subordinated Notes") issued to Melville. 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. There are 918 Kay-Bee stores located in enclosed shopping malls and 127 stores located in strip shopping centers. The Company believes that Kay-Bee was the largest enclosed shopping mall-based toy retailer in the United States. On a pro forma basis, after giving effect to the Acquisition, the Company would have had net sales of $2,597.7 million in fiscal 1995. See "Acquisition of Kay-Bee Center, Inc."

RECENT DEVELOPMENTS

On May 13, 1996, Consolidated Stores announced its financial results for the first fiscal quarter ended May 4, 1996. See "Recent Developments."

THE OFFERING

Common Stock Offered......................................	5,000,000 shares
Common Stock Outstanding after the Offering(1)............	53,105,521 shares
Use of Proceeds...	To repay a portion of the Company's borrowings incurred under the Revolving Credit Facility (as defined herein) to finance the Acquisition. See "Use of Proceeds."
New York Stock Exchange Symbol............................	CNS

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(1) Based on the number of shares outstanding on May 17, 1996. Excludes 4,416,318 shares of Common Stock reserved for issuance upon exercise of outstanding stock options and 761,000 shares of Common Stock that will be reserved for issuance upon stockholder approval of the Company's proposed 1996 Performance Incentive Plan.

SUMMARY HISTORICAL FINANCIAL DATA
CONSOLIDATED STORES CORPORATION

	FISCAL YEAR ENDED(1)		
	FEBRUARY 3, 1996	JANUARY 28, 1995	JANUARY 29, 1994
	(IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA)		
STATEMENT OF EARNINGS DATA:			
Net sales	$ 1,512,299	$ 1,278,644	$ 1,055,291
Cost of sales	868,139	728,494	593,238
Gross profit	644,160	550,150	462,053
Selling and administrative expenses	532,158	451,411	386,116
Operating profit	112,002	98,739	75,937
Interest expense	8,036	7,238	5,812
Other expense (income)	1,706	(532)	(1,591)
Income before income taxes	102,260	92,033	71,716
Income taxes	37,854	36,813	28,689
Net income	$ 64,406	$ 55,220	$ 43,027
Earnings per common and common equivalent share of stock	$ 1.32	$ 1.15	$ .90
Weighted average common and common equivalent shares outstanding	48,903	48,077	47,976
OPERATING DATA:			
Stores open at end of period	861	752	609
Percentage change in net sales	18.3%	21.2%	13.6%
Percentage change in comparable store sales(2)	4.3%	3.5%	1.8%
Total retail selling square footage at end of period (000's)	12,023	10,637	9,014
Average net sales per square foot(2)	$ 126.98	$ 121.71	$ 119.86
BALANCE SHEET DATA (AT END OF PERIOD):			
Working capital	$ 253,858	$ 210,601	$ 174,529
Total assets	639,815	551,620	468,220
Long-term obligations	25,000	40,000	50,000
Stockholders' equity	389,564	315,234	258,535

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(1) All years presented are 52-week periods except for fiscal 1995, which consisted of 53 weeks.

(2) Percentage change in comparable store sales is defined as the annual percentage change in aggregate net sales from stores that have been open two full fiscal years at the beginning of the fiscal year. Percentage change in comparable store sales and average net sales per square foot for fiscal 1995 have been adjusted to reflect comparable 52-week periods.

SUMMARY HISTORICAL FINANCIAL DATA
KAY-BEE CENTER, INC.

	QUARTER ENDED (UNAUDITED) MARCH 30, 1996	QUARTER ENDED (UNAUDITED) APRIL 1, 1995	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1993
	(IN THOUSANDS, EXCEPT OPERATING DATA)				
STATEMENT OF OPERATIONS DATA:					
Net sales	$177,627	$169,118	$1,077,297	$1,012,164	$919,055
Cost of goods sold, buying and warehousing costs	114,753	113,363	695,987(1)	611,905	543,948
Gross profit	62,874	55,755	381,310	400,259	375,107
Store operating, selling, general and administrative and depreciation and amortization expenses	86,255	80,999	363,514	338,403	316,117
Restructuring and asset impairment charges	1,167	--	65,816(2)	--	--
Operating (loss) profit	(24,548)	(25,244)	(48,020)	61,856	58,990
Interest expense (income), net	546	(122)	5,335	2,081	260
(Loss) earnings before income taxes and cumulative effect of change in accounting principle	(25,094)	(25,122)	(53,355)	59,775	58,730
Income tax (benefit) expense	(10,214)	(10,230)	(3,102)	22,124	22,249
(Loss) earnings before cumulative effect of change in accounting principle	(14,880)	(14,892)	(50,253)	37,651	36,481
Cumulative effect of change in accounting principle, net	--	711	711	--	--
Net (loss) earnings	$(14,880)	$(15,603)	$ (50,964)	$ 37,651	$ 36,481
OPERATING DATA:					
Stores open at end of period	1,044	1,008	1,004	996	1,030
Percentage change in net sales	5.0%	1.9%	6.4%	10.1%	(4.0)%
Percentage change in comparable store sales(3)	2.5%	(0.2)%	2.3%	10.2%	(5.4)%
Total retail selling square footage at end of period (000's)	4,077	3,831	3,672	3,620	3,692
Average net sales per square foot	$ 43.56	$ 44.17	$ 279.63	$ 273.15	$ 244.29
BALANCE SHEET DATA (AT END OF PERIOD):					
Working capital	$127,102	$155,975	$ 138,819	$ 177,066	$161,971
Total assets	439,828	492,718	482,216	567,946	524,467
Long-term debt, including capital lease obligations	11,552	11,824	11,622	11,885	12,124
Shareholder's equity	259,606	325,343	274,486	345,580	325,007

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(1) During December 1995, Kay-Bee undertook $25.8 million of inventory clearance markdowns in order to liquidate discontinued items and slower-moving merchandise. This markdown charge resulted in an increase in cost of goods sold in the fourth quarter.

(2) During the fourth quarter of 1995, Kay-Bee incurred $65.8 million of restructuring and asset impairment charges to cover the closing of 52 underperforming stores and the write-down of impaired assets.

(3) Annual percentage change in comparable store sales for Kay-Bee is defined as the percentage change in aggregate net sales from stores that have been open at least 13 months.

SUMMARY PRO FORMA COMBINED FINANCIAL DATA
CONSOLIDATED STORES CORPORATION AND KAY-BEE CENTER, INC.

The summary pro forma combined financial data for the Company set forth below has been derived from the unaudited pro forma combined financial information included elsewhere in this Prospectus and gives effect to (i) the Acquisition and the financing thereof, including the issuance of the Subordinated Notes and borrowings under the Revolving Credit Facility, and (ii) the Offering and the application of net proceeds therefrom, as if those transactions had occurred on January 29, 1995 with respect to the statement of earnings data, and as of February 3, 1996 with respect to the balance sheet and operating data. The summary unaudited pro forma combined financial data does not necessarily represent what the Company's financial position and results of operations would have been if the Acquisition and the financing thereof and the Offering and the application of the net proceeds therefrom had actually been completed as of the dates indicated and is not intended to project the Company's financial position or results of operations for any future period. The following summary pro forma combined financial data should be read in conjunction with the audited financial statements of each of Consolidated Stores and Kay-Bee and the unaudited pro forma combined financial information, including the respective notes thereto, included elsewhere in this Prospectus.

	FISCAL YEAR ENDED FEBRUARY 3, 1996(1) (UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AND OPERATING DATA)
STATEMENT OF EARNINGS DATA:	
Net sales	$2,597,721
Cost of sales	1,550,202
Gross profit	1,047,519
Selling and administrative expenses	914,555
Operating profit	132,964
Interest expense	17,681
Other expense	1,706
Earnings before income taxes	113,577
Income taxes	42,023
Net earnings	$ 71,554
Earnings per common and common equivalent share of stock	$ 1.33
Weighted average common and common equivalent shares outstanding	53,903
OPERATING DATA:	
Stores open at end of period	1,865
Total retail selling square footage at end of period (000's)	15,695
BALANCE SHEET DATA (AT END OF PERIOD):	
Working capital	$ 358,538
Total assets	1,082,291
Long-term obligations, including obligations under capital leases	111,622
Stockholders' equity	571,823

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(1) The pro forma purchase price for the Acquisition was determined based on the book value as of December 31, 1995 of the Kay-Bee net assets acquired. The actual purchase price as of May 5, 1996 was higher based primarily on the increase in seasonal working capital at Kay-Bee for the period from January 1, 1996 to May 4, 1996. This increase in working capital and the borrowings that would be attributable thereto are not reflected in the unaudited pro forma combined financial information. Accordingly, the unaudited pro forma combined financial information reflects a lower purchase price and lower outstanding borrowings under the Revolving Credit Facility. The Company borrowed approximately $215 million under the Revolving Credit Facility to finance the cash portion of the Acquisition, which borrowings will be partially repaid with the net proceeds from the Offering.

RISK FACTORS

Prior to making an investment decision, prospective investors should consider carefully all of the information set forth in this Prospectus and, in particular, should evaluate the following risk factors.

ABILITY TO EFFICIENTLY INTEGRATE AND OPERATE KAY-BEE

The future success of the Company will depend in part upon its ability to integrate and operate Kay-Bee successfully with its core close-out business. The Acquisition significantly expanded Consolidated Stores' retail sale of in-line toys, which, as a category, is highly competitive, very seasonal and heavily dependent on the introduction and marketing of popular products by manufacturers. The Acquisition also more than doubled the number of retail stores operated by Consolidated Stores, with most of the acquired stores located in enclosed shopping malls. While Consolidated Stores operates a number of enclosed shopping mall-based close-out stores, its historical focus has been strip shopping centers and outlet malls. Additionally, many of the Kay-Bee stores are located in geographic areas in which Consolidated Stores has not previously operated. The future success of the Company will also depend in part on its ability to retain and assimilate qualified employees of Kay-Bee. There can be no assurance that the Company will be able to efficiently integrate and operate Kay-Bee with its core close-out business. A failure to do so could have a material adverse effect on the Company's results of operations and financial condition. See "Business -- Acquisition of Kay-Bee."

ABILITY TO ACHIEVE CONTINUED GROWTH

Over the past five fiscal years, Consolidated Stores has experienced substantial growth in net sales, operating profit and earnings per share. The Company's continued growth depends on, among other factors, its ability to (i) open and operate new stores profitably, (ii) increase comparable store sales and (iii) efficiently integrate and operate Kay-Bee. The Company plans to open 110 to 135 new stores (net of store closings) in fiscal 1996. The Company's ability to successfully manage its growth is dependent on a number of factors, including its ability to (a) identify new markets in which it can successfully compete, (b) locate suitable store sites and negotiate acceptable lease terms, (c) introduce its stores and the value-oriented, close-out retailing concept in new markets, (d) adapt its purchasing, distribution, management information and other systems to accommodate expanded operations, (e) attract and train qualified personnel and (f) obtain adequate financing. In addition, the Company's future growth is dependent upon factors beyond the Company's control such as general economic and business conditions affecting manufacturing and consumer spending. There can be no assurance that the Company will be able to achieve its planned store growth or comparable store sales increases or that such growth will allow the Company to maintain profitability.

COMPETITION

The retail industry is highly competitive. The Company's retail close-out 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 retail toy operations 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

SEASONALITY

Consolidated Stores historically has experienced seasonality, with a significant percentage of its net sales and income being realized in the fourth fiscal quarter. As a result of the Acquisition and the increase in the Company's retail toy operations, the Company expects to recognize an increasing amount of its net sales and income during the fourth fiscal quarter and to recognize operating losses during the other three fiscal quarters. 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. 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 store staffing during the fourth fiscal quarter. If for any reason the Company's net sales are below the Company's expectations for the fourth fiscal quarter, the Company's financial condition and results of operations could be adversely affected.

The increased seasonality of the Company's business will also increase the Company's demand for seasonal borrowings. The Company has traditionally drawn upon its credit lines in the first three fiscal quarters and repaid the borrowings during the fourth fiscal quarter. The Acquisition will increase the amount of seasonal borrowings in the first three fiscal quarters. If for any reason the Company's net sales are below the Company's expectations for the fourth fiscal quarter, its ability to repay seasonal borrowings in total by fiscal year end could be adversely affected.

PURCHASING OF SUITABLE MERCHANDISE

The success of the Company's close-out business depends 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 has no continuing contracts for the purchase of close-out merchandise and relies on buying opportunities from both existing and new sources, for which it competes with other close-out merchandisers and wholesalers. In addition, 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. Although the Company believes that its management has longstanding relationships with its suppliers and is competitively positioned to continue to seek new sources, there can be no assurance that the Company will be successful in maintaining an adequate continuing supply of quality merchandise at attractive prices. See "Business -- Purchasing."

IMPACT OF FOREIGN IMPORTS

The Company imports approximately 20% to 25% of its inventory directly from certain Asian, South American and European countries, 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" ("MFN") 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. MFN status allows the importation of products at lower tariff rates than otherwise imposed by U.S. laws.

The Company believes at least 65% of its direct and indirect imports come from the People's Republic of China ("China"). The United States customarily grants China MFN status, which must be renewed annually. There are currently a number of trade-related and other issues between the governments of the United States and China, any one of which could result in the revocation or non-renewal of China's MFN status. If China's MFN status were revoked or not renewed, the Company could have higher purchasing costs or a material depletion of available merchandise because of increased tariffs on products imported from China. 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. See "Business -- Purchasing."

DISRUPTIONS IN RECEIVING AND DISTRIBUTION

Substantially all of the Company's inventory for the Odd Lots/Big Lots, The Amazing Toy Store and Toy Liquidators stores is shipped directly from suppliers to the Company's 2,884,100 square foot distribution facility in Columbus, Ohio, where the inventory is processed and then distributed to stores. A natural disaster or other calamity that causes long-term damage to the Columbus facility or any long-term disruption in operations of this facility could have a material adverse effect on the Company's results of operations and financial condition. See "Business -- Warehousing and Distribution."

EFFECT OF CERTAIN ANTI-TAKEOVER PROVISIONS

The Company has adopted a stockholder's rights agreement that includes certain provisions that are intended to prevent or delay the acquisition of the Company by means of a tender offer, proxy contest or otherwise. Additionally, the Company's Restated Certificate of Incorporation authorizes the Board of Directors to issue preferred stock, without further stockholder approval, which could have dividend, redemption, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of the Common Stock. Finally, the Company is subject to Section 203 of the Delaware General Corporation Law, which limits transactions between a publicly held company and "interested stockholders" (generally, those stockholders who, together with their affiliates and associates, own 15% or more of a company's outstanding capital stock). Any one of, or a combination of, the above anti-takeover provisions could discourage a third party from attempting to acquire control of the Company. See "Description of Capital Stock."

USE OF PROCEEDS

The net proceeds to the Company from the Offering are estimated to be approximately $185 million ($213 million if the Underwriters' over-allotment option is exercised in full), after deducting the underwriting discount and expenses of this Offering payable by the Company. Such proceeds will be used to repay a portion of the approximately $215 million in borrowings that the Company incurred under the $600.0 million revolving credit facility (the "Revolving Credit Facility") to finance the Acquisition. The Revolving Credit Facility has a maturity date of May 3, 1999. Borrowings under the Revolving Credit Facility accrue interest on a floating rate based on LIBOR. On May 17, 1996, the weighted average interest rate on borrowings under the Revolving Credit Facility was 6.4%. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Resources and Liquidity."

CAPITALIZATION

The following table sets forth (i) the historical capitalization of Consolidated Stores as of February 3, 1996, (ii) the pro forma capitalization of the Company as of February 3, 1996, after giving effect to the Acquisition and related financings, and (iii) the pro forma capitalization of the Company as of February 3, 1996, after giving effect to the Acquisition and related financings, and as adjusted to reflect the application of the net proceeds from the Offering. This presentation should be read in conjunction with the audited financial statements of Consolidated Stores, including the notes thereto, and the unaudited pro forma combined financial information of the Company, including the notes thereto, included elsewhere in this Prospectus.

	AS OF FEBRUARY 3, 1996		
	ACTUAL	PRO FORMA(1)	PRO FORMA AS ADJUSTED
	(IN THOUSANDS)		
Current portion of long-term debt	$ 10,000	$ 263	$ 263
Long-term debt, less current maturities:			
Revolving Credit Facility	$ --	$132,607	$ --
Senior notes	25,000	--	--
Guaranteed first mortgage note	--	7,908	7,908
Obligations under capital leases	--	3,714	3,714
Subordinated Notes	--	100,000	100,000
Total long-term debt	25,000	244,229	111,622
Stockholders' equity:			
Preferred stock, $.01 par value, 2,000,000 shares authorized; no shares issued	--	--	--
Common stock, $.01 par value, 90,000,000 shares authorized, 47,775,958 shares issued and outstanding, 52,775,958 shares issued and outstanding, as adjusted(2)	478	478	528
Non-voting common stock, $.01 par value, 8,000,000 shares authorized; no shares issued	--	--	--
Additional paid-in capital	104,511	104,511	289,461
Retained earnings	285,105	282,364	282,364
Other adjustments	(530)	(530)	(530)
Total stockholders' equity	389,564	386,823	571,823
Total capitalization	$414,564	$631,052	$ 683,445

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(1) The pro forma purchase price for the Acquisition was determined based on the book value as of December 31, 1995 of the Kay-Bee net assets acquired. The actual purchase price as of May 5, 1996 was higher based primarily on the increase in seasonal working capital at Kay-Bee for the period from January 1, 1996 to May 4, 1996. This increase in working capital and the borrowings that would be attributable thereto are not reflected in the unaudited pro forma combined financial information. Accordingly, the unaudited pro forma combined financial information reflects a lower purchase price and lower outstanding borrowings under the Revolving Credit Facility. The Company borrowed approximately $215 million under the Revolving Credit Facility to finance the cash portion of the Acquisition, which borrowings will be partially repaid with the net proceeds from the Offering.

(2) Excludes 4,590,803 shares of Common Stock reserved for issuance upon exercise of outstanding stock options and 761,000 shares of Common Stock that will be reserved for issuance upon stockholder approval of the Company's proposed 1996 Performance Incentive Plan.

PRICE RANGE OF COMMON STOCK

The Common Stock is traded on the New York Stock Exchange ("NYSE") under the symbol "CNS." The following table sets forth, on a per share basis, the high and low sales prices for the Common Stock as reported on the NYSE for the periods indicated.

	HIGH	LOW
FISCAL 1994:		
First Quarter	$20	$16 3/4
Second Quarter	17 1/4	11 1/2
Third Quarter	18 1/2	11 7/8
Fourth Quarter	19 3/8	15 3/4
FISCAL 1995:		
First Quarter	$20 7/8	$16 1/4
Second Quarter	23	15 3/4
Third Quarter	25 1/8	21 1/8
Fourth Quarter	25 5/8	19 3/8
FISCAL 1996:		
First Quarter	$37 1/8	$20 3/4
Second Quarter (through May 21, 1996)	39 3/8	34 3/8

The last reported sale price of the Common Stock on the NYSE as of a recent date is set forth on the cover page of this Prospectus. As of May 17, 1996, there were 1,306 holders of record of the Common Stock.

DIVIDEND POLICY

The Company has never paid cash dividends on its Common Stock and does not anticipate paying any cash dividends in the foreseeable future. The Company has followed a policy of reinvesting earnings in the business. In addition, the Company's indebtedness (including the Revolving Credit Facility and Subordinated Notes) contains covenants that limit the Company's ability to pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Resources and Liquidity."

RECENT DEVELOPMENTS

On May 13, 1996, Consolidated Stores announced its financial results for the first fiscal quarter ended May 4, 1996. Consolidated Stores had net sales of $343.2 million in the fiscal quarter ended May 4, 1996, compared with $291.8 million in the first fiscal quarter of 1995, an increase of $51.4 million, or 17.6%. Comparable store sales for stores open two years at the beginning of the fiscal year increased 5.4% in the 1996 fiscal quarter compared to a 4.3% improvement in the 1995 period. Operating profit was $7.4 million in the first fiscal quarter of 1996 compared with $6.0 million in the first fiscal quarter of 1995, an increase of $1.4 million, or 23.3%, and selling, general and administrative expenses, as a percentage of net sales, were 40.2% in the first fiscal quarter of 1996 compared to 40.1% in the same 1995 period. Net income in the first fiscal quarter of 1996 increased 20.0% to $3.6 million, $.07 per share, compared with net income of $3.0 million, $.06 per share, in the first fiscal quarter of 1995.

The following summary first fiscal quarter financial data should be read in conjunction with "Capitalization," "Selected Historical Financial Data," "Selected Historical Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited financial statements of Consolidated Stores included elsewhere in this Prospectus.

	QUARTER ENDED (UNAUDITED)	
	MAY 4, 1996	APRIL 29, 1995
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
STATEMENT OF EARNINGS DATA:		
Net sales	$ 343,229	$291,797
Cost of sales	197,802	168,897
Gross profit	145,427	122,900
Selling and administrative expenses	138,059	116,923
Operating profit	7,368	5,977
Other expense	1,644	1,145
Income before income taxes	5,724	4,832
Income taxes	2,118	1,836
Net income	$ 3,606	$ 2,996
Earnings per common and common equivalent share of stock	$ 0.07	$ 0.06
Weighted average common and common equivalent shares outstanding	49,826	48,482

SELECTED HISTORICAL FINANCIAL DATA
CONSOLIDATED STORES CORPORATION

The selected historical financial data set forth in the following table has been derived from the audited financial statements of Consolidated Stores, including the notes thereto. The statement of earnings data for the fiscal years ended February 3, 1996, January 28, 1995 and January 29, 1994 and the balance sheet data as of February 3, 1996 and January 28, 1995 are derived from the financial statements of Consolidated Stores, which have been audited by Deloitte & Touche LLP, independent auditors, and are included elsewhere in this Prospectus. The statement of earnings data for the fiscal years ended January 30, 1993 and February 1, 1992 and the balance sheet data as of January 29, 1994, January 30, 1993 and February 1, 1992 are derived from the financial statements of Consolidated Stores, which also have been audited, but are not included elsewhere in this Prospectus. This data should be read in conjunction with, and is qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Consolidated Stores Corporation" and the audited financial statements of Consolidated Stores, including the notes thereto, and the other financial information included elsewhere in this Prospectus.

	FISCAL YEAR ENDED(1)				
	FEBRUARY 3, 1996	JANUARY 28, 1995	JANUARY 29, 1994	JANUARY 30, 1993	FEBRUARY 1, 1992
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF EARNINGS DATA:					
Net sales:					
Odd Lots/Big Lots	$ 1,286,675	$ 1,112,087	$ 941,471	$ 837,805	$ 744,896
iTZADEAL! and All For One	106,283	93,590	92,283	72,986	7,685
The Amazing Toy Store and Toy Liquidators	76,689	45,937	--	--	--
Total retail	1,469,647	1,251,614	1,033,754	910,791	752,581
Other	42,652	27,030	21,537	18,489	18,916
Total net sales	1,512,299	1,278,644	1,055,291	929,280	771,497
Cost of sales:					
Odd Lots/Big Lots	738,675	638,533	531,605	479,536	441,351
iTZADEAL! and All For One	56,585	47,331	45,275	36,973	4,084
The Amazing Toy Store and Toy Liquidators	40,598	22,467	--	--	--
Total retail	835,858	708,331	576,880	516,509	445,435
Other	32,281	20,163	16,358	13,895	14,047
Total cost of sales	868,139	728,494	593,238	530,404	459,482
Gross profit:					
Odd Lots/Big Lots	548,000	473,554	409,866	358,269	303,545
iTZADEAL! and All For One	49,698	46,259	47,008	36,013	3,601
The Amazing Toy Store and Toy Liquidators	36,091	23,470	--	--	--
Total retail	633,789	543,283	456,874	394,282	307,146
Other	10,371	6,867	5,179	4,594	4,869
Total gross profit	644,160	550,150	462,053	398,876	312,015
Selling and administrative expenses	532,158	451,411	386,116	334,494	273,704
Operating profit	112,002	98,739	75,937	64,382	38,311
Interest expense	8,036	7,238	5,812	5,697	6,265
Other expense (income)	1,706	(532)	(1,591)	(1,581)	(369)
Income before income taxes	102,260	92,033	71,716	60,266	32,415
Income taxes	37,854	36,813	28,689	23,156	12,317
Net income	$ 64,406	$ 55,220	$ 43,027	$ 37,110	$ 20,098
Earnings per common and common equivalent share of stock	$ 1.32	$ 1.15	$ .90	$ .78	$ .44
Weighted average common and common equivalent shares outstanding	48,903	48,077	47,976	47,676	45,797
BALANCE SHEET DATA (AT END OF PERIOD):					
Working capital	$ 253,858	$ 210,601	$ 174,529	$ 142,305	$ 120,275
Total assets	639,815	551,620	468,220	390,942	329,321
Long-term obligations	25,000	40,000	50,000	50,000	50,000
Stockholders' equity	389,564	315,234	258,535	209,459	170,520

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(1) All years presented are 52-week periods except for fiscal 1995, which consisted of 53 weeks.

SELECTED HISTORICAL FINANCIAL DATA
KAY-BEE CENTER, INC.

The selected historical financial data set forth in the following table has been derived from the financial statements of Kay-Bee, including the notes thereto. The statement of operations data for each of the three years ended December 31, 1995 and balance sheet data as of December 31, 1995, 1994 and 1993 are derived from the financial statements of Kay-Bee, which have been audited by KPMG Peat Marwick LLP, independent auditors, and are included elsewhere in this Prospectus. The statement of operations data for the quarter ended March 30, 1996 and April 1, 1995 and balance sheet data as of March 30, 1996 and April 1, 1995 are derived primarily from Kay-Bee's unaudited interim financial statements which are included elsewhere in this Prospectus. The data set forth below should be read in conjunction with, and is qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Kay-Bee Center, Inc.," the financial statements of Kay-Bee, including the notes thereto, and the other financial information included elsewhere in this Prospectus.

	QUARTER ENDED (UNAUDITED)		YEAR ENDED DECEMBER 31,		
	MARCH 30, 1996	APRIL 1, 1995	1995	1994	1993
			(IN THOUSANDS)		
STATEMENT OF OPERATIONS DATA:					
Net sales	$177,627	$169,118	$1,077,297	$1,012,164	$919,055
Cost of goods sold, buying and warehousing costs	114,753	113,363	695,987(1)	611,905	543,948
Gross profit	62,874	55,755	381,310	400,259	375,107
Store operating, selling, general and administrative and depreciation and amortization expenses	86,255	80,999	363,514	338,403	316,117
Restructuring and asset impairment charges	1,167	--	65,816(2)	--	--
Operating (loss) profit	(24,548)	(25,244)	(48,020)	61,856	58,990
Interest expense (income), net	546	(122)	5,335	2,081	260
(Loss) earnings before income taxes and cumulative effect of change in accounting principle	(25,094)	(25,122)	(53,355)	59,775	58,730
Income tax (benefit) expense	(10,214)	(10,230)	(3,102)	22,124	22,249
(Loss) earnings before cumulative effect of change in accounting principle	(14,880)	(14,892)	(50,253)	37,651	36,481
Cumulative effect of change in accounting principle, net	--	711	711	--	--
Net (loss) earnings	$(14,880)	$(15,603)	$ (50,964)	$ 37,651	$ 36,481
BALANCE SHEET DATA (AT END OF PERIOD):					
Working capital	$127,102	$155,975	$ 138,819	$ 177,066	$161,971
Total assets	439,828	492,718	482,216	567,946	524,467
Long-term debt, including capital lease obligations	11,552	11,824	11,622	11,885	12,124
Shareholder's equity	259,606	325,343	274,486	345,580	325,007

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(1) During December 1995, Kay-Bee undertook $25.8 million of inventory clearance markdowns in order to liquidate discontinued items and slower-moving merchandise. This markdown charge resulted in an increase in cost of goods sold in the fourth quarter.

(2) During the fourth quarter of 1995, Kay-Bee incurred $65.8 million of restructuring and asset impairment charges to cover the closing of 52 underperforming stores and the write-down of impaired assets.

SELECTED HISTORICAL OPERATING DATA

CONSOLIDATED STORES

The following table sets forth certain historical operating data of Consolidated Stores for fiscal years 1991 through 1995.

	FISCAL YEAR ENDED(1)				
	FEBRUARY 3, 1996	JANUARY 28, 1995	JANUARY 29, 1994	JANUARY 30, 1993	FEBRUARY 1, 1992
OPERATING DATA:					
Percentage change in net sales	18.3%	21.2%	13.6%	20.5%	13.6%
Percentage change in comparable store sales(2)	4.3%	3.5%	1.8%	4.3%	5.6%
Total retail selling square footage at end of period (000's)	12,023	10,637	9,014	7,877	7,017
Average net sales per square foot(2)	$126.98	$121.71	$119.86	$115.64	$108.57
STORES OPENED					
Odd Lots/Big Lots	67	79	71	47	37
iTZADEAL! and All For One	50	15	21	120	41
Toy Liquidators and The Amazing Toy Store	30	82	--	--	--
Total	147	176	92	167	78
STORES CLOSED					
Odd Lots/Big Lots	14	23	20	24	16
iTZADEAL! and All For One	23	10	4	--	1
Toy Liquidators and The Amazing Toy Store	1	--	--	--	--
Total	38	33	24	24	17
STORES OPEN AT END OF PERIOD					
Odd Lots/Big Lots	541	488	432	381	358
iTZADEAL! and All For One	209	182	177	160	40
Toy Liquidators and The Amazing Toy Store	111	82	--	--	--
Total	861	752	609	541	398

KAY-BEE

The following table sets forth certain historical operating data of Kay-Bee for the first fiscal quarter of 1995 and of 1996 and for fiscal years 1993 through 1995.

	QUARTER ENDED		YEAR ENDED DECEMBER 31,		
	MARCH 30, 1996	APRIL 1, 1995	1995	1994	1993
OPERATING DATA:					
Percentage change in net sales	5.0%	1.9%	6.4%	10.1%	(4.0)%
Percentage change in comparable store sales(3)	2.5%	(0.2)%	2.3%	10.2%	(5.4)%
Total retail selling square footage at end of period (000's)	4,077	3,831	3,672	3,620	3,692
Average net sales per square foot	$ 43.56	$ 44.17	$279.63	$273.15	$244.29
Stores opened	3	--	33	25	25
Stores closed	38	11	48	23	--
Reclassification of stores previously (included) excluded from operations	75	23	23	(36)	--
Stores open at end of period	1,044	1,008	1,004	996	1,030

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(1) All years presented are 52-week periods except for fiscal 1995, which consisted of 53 weeks.

(2) Annual percentage change in comparable store sales is defined as the annual percentage change in aggregate net sales from stores that have been open two full fiscal years at the beginning of the fiscal year. Percentage change in comparable store sales and average net sales per square foot for fiscal 1995 have been adjusted to reflect comparable 52-week periods.

(3) Annual percentage change in comparable store sales for Kay-Bee is defined as the percentage change in aggregate net sales from stores that have been open at least 13 months.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company is the nation's largest close-out retailer, with 1,906 stores located in all 50 states and Puerto Rico. The Company operates 750 retail close-out stores, primarily under the names Odd Lots/Big Lots, iTZADEAL! and All For One, in the midwestern, southern and mid-Atlantic regions of the United States, and 1,156 retail toy stores throughout the United States and Puerto Rico, primarily under the names Kay-Bee Toys, Toy Works, The Amazing Toy Store and Toy Liquidators. Approximately 1,045 of the Toy Stores were acquired as of May 5, 1996 in the Acquisition.

The historical results of operations for Kay-Bee must be adjusted in order to be directly comparable to the cost of sales, gross profit and selling and administrative expenses of Consolidated Stores. Consolidated Stores has recorded transportation, distribution and buying expenses as period expenses included in selling and administrative expenses, while Kay-Bee has recorded these expenses in cost of goods sold. In fiscal 1995, conforming Kay-Bee's financial statements to reflect Consolidated Stores' accounting treatment of these expenses would have resulted in a decrease in cost of sales as a percentage of net sales of approximately 3.4 percentage points and an equal and offsetting dollar increase in selling and administrative expenses of Kay-Bee. With the Acquisition, the Company is conforming Kay-Bee's accounting practices to those of Consolidated Stores.

Historically, the operating results of Consolidated Stores and Kay-Bee have reflected differences in cost of sales, gross profit and selling and administrative expenses expressed as a percentage of net sales. These differences are attributable in part to the higher percentage of lower margin in-line toys in the Kay-Bee merchandise mix. The Company anticipates that this may result in a lower operating margin ratio for the combined entity.

Over the last several fiscal years, the management of Kay-Bee pursued a strategy of closing underperforming stores. In fiscal 1995, Kay-Bee incurred $65.8 million of restructuring and asset impairment charges to cover the closing of 52 underperforming stores and the write-down of impaired assets. In addition, in December 1995, Kay-Bee undertook $25.8 million of inventory clearance markdowns in order to liquidate discontinued items and slower-moving merchandise. This markdown resulted in an increase in cost of sales in the fourth fiscal quarter.

Though Consolidated Stores has historically experienced seasonality, it has generally recorded operating profits during each fiscal quarter. However, due to the increase in the Company's retail toy operations as a result of the Acquisition, the Company expects it will recognize operating losses during the first three fiscal quarters and recognize an increasing amount of its net sales, operating profit and net income during the fourth fiscal quarter.

CONSOLIDATED STORES

Results of Operations for Fiscal 1995, 1994 and 1993

The table below compares components of the statements of earnings of Consolidated Stores as a percentage of net sales.

	FISCAL 1995	FISCAL 1994	FISCAL 1993
Net sales:			
Odd Lots/Big Lots	85.1%	87.0%	89.2%
iTZADEAL! and All For One	7.0	7.3	8.8
The Amazing Toy Store and Toy Liquidators	5.1	3.6	--
Other	2.8	2.1	2.0
Total net sales	100.0	100.0	100.0
Cost of sales	57.4	57.0	56.2
Gross profit	42.6	43.0	43.8
Selling and administrative expenses	35.2	35.3	36.6
Operating profit	7.4	7.7	7.2
Interest expense	.5	.5	.6
Other income (expense) -- net	(.1)	--	.2
Income before income taxes	6.8	7.2	6.8
Income tax expense	2.5	2.9	2.7
Net income	4.3%	4.3%	4.1%

Fiscal 1995 Compared to Fiscal 1994

Net Sales. Net sales increased to $1,512.3 million in fiscal 1995 from $1,278.6 million in fiscal 1994, an increase of $233.7 million, or 18.3%. This increase was attributable to net sales of $127.9 million from 147 new stores and comparable store sales increases of 4.3%, offset in part by the closing of 38 stores. The increase in comparable store sales was attributable to improved product offerings and merchandise mix as well as a continued refinement and expansion of the Consolidated Stores' television advertising program, which was introduced in the fall of 1994. Comparable store sales were negatively impacted during the fall/winter holiday selling season by abnormally inclement weather in many of Consolidated Stores' markets. Additionally, fiscal 1995 was a 53-week fiscal year, compared to fiscal 1994, which had 52 weeks.

Net sales of Odd Lots/Big Lots stores increased $174.6 million, or 15.7%, to $1,286.7 million in fiscal 1995 from $1,112.1 million in fiscal 1994. Net sales of The Amazing Toy Store and Toy Liquidators stores increased $30.8 million, or 67.1%, to $76.7 million in fiscal 1995 from $45.9 million in fiscal 1994. This increase was largely attributable to a full year of operations at Toy Liquidators in fiscal 1995 (which Consolidated Stores acquired in May 1994), as well as net sales of $11.3 million from a net of 29 new stores. Net sales at iTZADEAL! and All For One increased $12.7 million, or 13.6%, to $106.3 million in fiscal 1995 from $93.6 million in fiscal 1994.

Gross Profit. Gross profit increased to $644.2 million in fiscal 1995 from $550.2 million in fiscal 1994, an increase of $94.0 million, or 17.1%. As a percentage of net sales, gross profit decreased to 42.6% in fiscal 1995 from 43.0% in fiscal 1994. The decrease in gross margin was attributable to decreases in gross margin at both The Amazing Toy Store and Toy Liquidators stores and iTZADEAL! and All For One stores. Gross margin at The Amazing Toy Store and Toy Liquidators stores was high in fiscal 1994 due to the advantageous terms on which Consolidated Stores purchased the inventory of the Toy Liquidators business in May 1994. The decline in the gross margin at iTZADEAL! and All For One stores was due to the increase in the number of iTZADEAL! stores relative to the number of All For One stores. iTZADEAL! stores have a slightly lower gross margin than All For One stores as a result of the higher mix of domestic, name-brand close-out products and lower mix of higher-margin import merchandise. Gross margin at Odd Lots/Big Lots stores remained constant in fiscal 1995 compared to fiscal 1994.

Selling and Administrative Expenses. Selling and administrative expenses increased to $532.2 million in fiscal 1995 from $451.4 million in fiscal 1994, an increase of $80.8 million, or 17.9%. As a percentage of net sales, selling and administrative expenses decreased slightly to 35.2% in fiscal 1995 from 35.3% in fiscal 1994 as a result of the continued leveraging of fixed expenses over a larger store base and comparable store sales increases.

Interest Expense. Interest expense increased to $8.0 million in fiscal 1995 from $7.2 million in fiscal 1994. The increase was attributable to higher weighted average debt levels, resulting in part from increased seasonal borrowings to support higher average inventory levels, and increased effective interest rates on seasonal borrowings throughout the fiscal year. The increase in the effective interest rate was offset to some extent by a scheduled principal payment of $15.0 million on the senior debt.

Income Taxes. The effective tax rate of Consolidated Stores was 37.0% in fiscal 1995 compared to 40.0% in fiscal 1994. The reduction in the effective tax rate was attributable to the full fiscal year effect of corporate-owned life insurance, which was adopted in November 1994, as well as lower effective state and local income tax rates. This reduction was partially offset by the federally legislated elimination of the Targeted Jobs Tax Credit ("TJTC"). Realization of any future tax benefits associated with TJTC and corporate-owned life insurance is subject to pending federal legislation.

Fiscal 1994 Compared to Fiscal 1993

Net Sales. Net sales increased to $1,278.6 million in fiscal 1994 from $1,055.3 million in fiscal 1993, an increase of $223.3 million, or 21.2%. This increase was attributable to net sales of $178.4 million from 176 newly opened and newly acquired stores and comparable store sales increases of 3.5%, offset in part by the closing of 33 stores. The increase in comparable store sales was attributable to improved product offerings and merchandise mix as well as the introduction of a fall season television advertising program.

Net sales of Odd Lots/Big Lots stores increased $170.6 million, or 18.1%, to $1,112.1 million in fiscal 1994 from $941.5 million in fiscal 1993. In May 1994, Consolidated Stores acquired 82 Toy Liquidator stores that contributed $45.9 million in net sales in fiscal 1994. Net sales of iTZADEAL! and All For One stores increased $1.3 million, or 1.4%, to $93.6 million in fiscal 1994 from $92.3 million in fiscal 1993.

Gross Profit. Gross profit increased to $550.2 million in fiscal 1994 from $462.1 million in fiscal 1993, an increase of $88.1 million, or 19.1%. As a percentage of net sales, gross profit decreased to 43.0% in fiscal 1994 from 43.8% in fiscal 1993. The decrease in gross margin was attributable largely to a decrease in gross margin at Odd Lots/Big Lots stores that resulted from a planned change in merchandise mix. Consolidated Stores reduced its offerings of higher-margin, slower-turning softlines, primarily apparel, and expanded its offerings of lower-margin, faster-turning merchandise, primarily hardlines such as electronics. This decrease in gross margins in fiscal 1994 was partially offset by the higher gross margins of the newly acquired Toy Liquidators business.

Selling and Administrative Expenses. Selling and administrative expenses increased to $451.4 million in fiscal 1994 from $386.1 million in fiscal 1993, an increase of $65.3 million, or 16.9%. As a percentage of net sales, selling and administrative expenses decreased to 35.3% in fiscal 1994 from 36.6% in fiscal 1993 as a result of store-level expense control programs as well as the continued leveraging of fixed expenses over a larger store base and comparable store sales increases.

Interest Expense. Interest expense increased to $7.2 million in fiscal 1994 from $5.8 million in fiscal 1993. The increase was attributable to higher weighted average debt levels, resulting from increased seasonal borrowings to support higher average inventory levels and borrowings to finance the acquisition of Toy Liquidators, and increased effective interest rates on seasonal borrowings throughout the fiscal year.

Income Taxes. The effective tax rate of Consolidated Stores was 40.0% in both fiscal 1994 and fiscal 1993. Consolidated Stores did not experience any material changes in any of the components of the effective tax rate in fiscal 1994 compared to fiscal 1993.

KAY-BEE CENTER, INC.

Results of Operations for the First Fiscal Quarter of 1996 and of 1995 and for Fiscal 1995, 1994 and 1993

The table below compares components of the statements of operations of Kay-Bee as a percentage of net sales.

	QUARTER ENDED				
	MARCH 30, 1996	APRIL 1, 1995	FISCAL 1995	FISCAL 1994	FISCAL 1993
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold, buying and warehousing costs	64.6	67.0	64.6	60.5	59.2
Gross profit	35.4	33.0	35.4	39.5	40.8
Store operating, selling, general and administrative and depreciation and amortization expenses	48.6	47.9	33.8	33.4	34.4
Restructuring and asset impairment charges	.7	--	6.1	--	--
Operating (loss) profit	(13.9)	(14.9)	(4.5)	6.1	6.4
Interest expense, net	(.3)	--	.5	.2	--
(Loss) earnings before income taxes and cumulative effect of change in accounting principle	(14.2)	(14.9)	(5.0)	5.9	6.4
Income tax (benefit) expense	(5.8)	(6.1)	(.3)	2.2	2.4
(Loss) earnings before cumulative effect of change in accounting principle	(8.4)	(8.8)	(4.7)	3.7	4.0
Cumulative effect of change in accounting principle	--	(.4)	--	--	--
Net (loss) earnings	(8.4)%	(9.2)%	(4.7)%	3.7%	4.0%

First Fiscal Quarter 1996 Compared to First Fiscal Quarter 1995

Net Sales. Net sales increased to $177.6 million in the fiscal quarter ended March 30, 1996, from $169.1 million in the same period of fiscal 1995, an increase of $8.5 million, or 5.0%. This increase was attributable to net sales of $5.5 million from 36 new stores opened since the first quarter of fiscal 1995, comparable store sales increases of 2.5% and the inclusion of sales of 75 stores previously excluded from operations during fiscal 1995. During the first fiscal quarter of 1996, Kay-Bee opened 3 new stores, closed 38 stores and included the operating results of 75 stores that had previously been excluded from operations during fiscal 1995.

Gross Profit. Gross profit increased to $62.9 million in the first fiscal quarter of 1996 from $55.8 million in the first fiscal quarter of 1995, an increase of $7.1 million, or 12.8%. As a percentage of net sales, gross profit increased to 35.4% in the first fiscal quarter of 1996 from 33.0% in the first fiscal quarter of 1995. The margin increase was the result of reduced markdowns during the first fiscal quarter of 1996, partially offset by inventory shortage costs and increased transportation and distribution expenses resulting from outside storage requirements and increased store shipments. The need for markdowns was reduced primarily because $25.8 million of inventory clearance markdowns were taken in December 1995 in order to liquidate discontinued items and slower-moving merchandise from store inventories.

Store Operating, Selling, General and Administrative and Depreciation and Amortization Expenses. Store operating, selling, general and administrative and depreciation and amortization expenses increased to $86.3 million in the first fiscal quarter of 1996 from $81.0 million in the first fiscal quarter of 1995, an increase of $5.3 million, or 6.5%. As a percentage of net sales, store operating, selling, general and administrative and depreciation and amortization expenses increased to 48.6% in the first fiscal quarter of 1996 from 47.9% in the

first fiscal quarter of 1995. This increase was primarily the result of the write-off of fixed assets in 38 stores during the first fiscal quarter of 1996 compared to write-offs of fixed assets in 11 stores closed in the same period of fiscal 1995.

Restructuring and Asset Impairment Charges. Effective October 1, 1995, Kay-Bee adopted Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." As a result, a $1.2 million charge was recorded for asset impairment during the first fiscal quarter of 1996.

Interest Expense, Net. Net interest expense increased to $.5 million in the first fiscal quarter of 1996 from interest income of $.1 million in the first fiscal quarter of 1995. The increase was attributable to higher weighted average borrowings outstanding and an increase in the effective interest rate for the first fiscal quarter of 1996.

Income Tax Benefit. Kay-Bee's first fiscal quarter tax benefit was $10.2 million in each of fiscal 1996 and 1995. This tax benefit was due to operating losses in the first fiscal quarter of each of 1996 and 1995 reflecting the seasonal nature of the retail toy industry. The effective tax rate of Kay-Bee was 40.7% in the first fiscal quarter of each of 1996 and 1995.

Cumulative Effect of Change in Accounting Principle. Effective January 1, 1995, Kay-Bee changed its policy from capitalizing internally developed software costs to expensing them as incurred. The cumulative effect of this change was to write off the unamortized balance of capitalized software costs of $.7 million, net of taxes, during the first fiscal quarter of 1995.

Fiscal 1995 Compared to Fiscal 1994

Net Sales. Net sales increased to $1,077.3 million in fiscal 1995 from $1,012.2 million in fiscal 1994, an increase of $65.1 million, or 6.4%. This increase was attributable to net sales of $26.1 million from 33 new stores, comparable store sales increases of 2.3%, the reclassification of 23 stores previously excluded from operations and the addition of 34 temporary stores during the holiday season, offset by the closing of 48 stores during fiscal 1995. Kay-Bee opened 12 new Kay-Bee Toys stores, closed 48 Kay-Bee Toys stores and included the operating results of 23 Kay-Bee Toys stores that had been excluded from operations during fiscal 1995. Additionally, 21 Toy Works stores were opened and no Toy Works stores were closed during fiscal 1995.

Gross Profit. Gross profit decreased to $381.3 million in fiscal 1995 from $400.3 million in fiscal 1994, a decrease of $19.0 million, or 4.7%. As a percentage of net sales, gross profit decreased to 35.4% in fiscal 1995 from 39.5% in fiscal 1994. During December 1995, Kay-Bee recorded $25.8 million of inventory clearance markdowns (at cost) in order to liquidate discontinued items and slower-moving merchandise from store inventories. In addition to this December 1995 charge, margin declines were experienced as a result of higher regular markdowns during the year, higher shrink costs and increased transportation and distribution expenses resulting from outside storage requirements.

Store Operating, Selling, General and Administrative and Depreciation and Amortization Expenses. Store operating, selling, general and administrative and depreciation and amortization expenses increased to $363.5 million in fiscal 1995 from $338.4 million in fiscal 1994, an increase of $25.1 million, or 7.4%. As a percentage of net sales, store operating, selling, general and administrative and depreciation and amortization expenses increased to 33.8% in fiscal 1995 from 33.4% in fiscal 1994. This increase was primarily the result of additional sales promotion costs incurred in the planned expansion of the Toy Works concept and the creation of a holiday promotion catalog for Kay-Bee Toys stores. Also contributing to increased promotion costs was an expansion in circulation of Kay-Bee's holiday flyers.

Restructuring and Asset Impairment Charges. Pre-tax restructuring and asset impairment charges of $65.8 million were recorded in fiscal 1995 to cover the closing of 52 underperforming stores and the write-down of impaired assets. This charge consisted of $45.9 million to write-off the remaining balance of goodwill resulting from Melville's original acquisition of Kay-Bee as well as to provide for estimated lease settlement costs for stores to be closed, the cost to close and relocate one of Kay-Bee's warehouse/distribution centers, severance costs for store closures and the write-down of fixed assets. In addition, a pre-tax charge of $19.9

million was recorded to write-down the carrying value of certain long-lived assets in connection with the adoption of Statement of Financial Accounting Standards No. 121.

Interest Expense, Net. Net interest expense increased to $5.3 million in fiscal 1995 from $2.1 million in fiscal 1994. The increase was attributable to increased intercompany borrowings for the purchase of inventories as well as an increase in the effective interest rate in fiscal 1995.

Income Tax (Benefit) Expense. In fiscal 1995, Kay-Bee recorded a tax benefit of $3.1 million due to its operating losses. This compares to an effective tax rate in fiscal 1994 of 37.0%. The tax benefit for fiscal 1995 was significantly less than the statutory tax rate due to the non-deductibility of the write-off of goodwill.

Fiscal 1994 Compared to Fiscal 1993

Net Sales. Net sales increased to $1,012.2 million in fiscal 1994 from $919.1 million in fiscal 1993, an increase of $93.1 million, or 10.1%. This increase was attributable to net sales of $21.5 million from 25 new stores and comparable store sales increases of 10.2%, offset by the closing of 23 stores and exclusion of operating results for 36 stores previously included in operations. Kay-Bee opened 16 new Kay-Bee Toys stores, closed 23 Kay-Bee Toys stores and reclassified 36 Kay-Bee Toys stores previously included in operations. Additionally, nine Toy Works stores were opened and none were closed during fiscal 1994. The increase in comparable store sales was largely driven by the action toy category, which benefitted from the popularity of Power Rangers(R), and by the video game category as a result of several popular 16-bit video game releases.

Gross Profit. Gross profit increased to $400.3 million in fiscal 1994 from $375.1 million in fiscal 1993, an increase of $25.2 million, or 6.7%. As a percentage of net sales, gross profit decreased to 39.5% in fiscal 1994 from 40.8% in fiscal 1993. Most of this decrease was attributable to the non-recurrence in 1994 of the change in 1993 in the calculation of the LIFO price index with the remainder of the decline resulting from increases in shrink and transportation expenses.

Store Operating, Selling, General and Administrative and Depreciation and Amortization Expenses. Store operating, selling, general and administrative and depreciation and amortization expenses increased to $338.4 million in fiscal 1994 from $316.1 million in fiscal 1993, an increase of $22.3 million, or 7.1%. As a percentage of net sales, store operating, selling, general and administrative and depreciation and amortization expenses decreased to 33.4% in fiscal 1994 from 34.4% in fiscal 1993. This percentage decrease was primarily the result of the 10.1% sales increase and the resulting leverage of fixed expenses as well as a reduction in advertising expense.

Interest Expense, Net. Net interest expense increased to $2.1 million in fiscal 1994 from $.3 million in fiscal 1993. The increase was attributable to increased intercompany borrowings for the purchase of inventories as well as an increase in the effective interest rate in fiscal 1994.

Income Tax (Benefit) Expense. The effective tax rate of Kay-Bee was 37.0% in fiscal 1994 compared to 37.9% in fiscal 1993. The reduction in the effective rate was primarily due to a reduction in the state tax provision for fiscal 1994.

CAPITAL RESOURCES AND LIQUIDITY

Historical

The primary sources of liquidity for Consolidated Stores over the past three fiscal years have been cash flow from operations and borrowings under available credit facilities. Net cash provided by operating activities over the last three fiscal years, as detailed in the consolidated statements of cash flows, was $29.4 million, $59.7 million and $29.4 million in fiscal 1995, 1994 and 1993, respectively. As necessary, Consolidated Stores supplemented cash provided from operations with borrowings under available credit facilities to fund new store expansion, seasonal inventory purchases, capital expenditure programs and a scheduled principal payment on senior debt of $15.0 million in fiscal 1995. The cash provided from operations over the past three fiscal years has been sufficient to allow Consolidated Stores to fully repay the outstanding balance of its credit agreements prior to its fiscal year end. Total debt as a percentage of total capitalization (total debt and stockholders' equity) was 8.2% at February 3, 1996, compared with 13.7% and 16.2% at each of the respective prior fiscal year ends. Working capital increased from $174.5 million at the end of fiscal 1993 to $253.9 million at the end of fiscal 1995 primarily as a result of increases in inventory associated with new store openings. Capital expenditures for the last three fiscal years were $48.1 million, $41.6 million and $46.0 million, respectively, and were used primarily to fund new store openings.

At February 3, 1996, available committed credit facilities were $86.0 million under the Consolidated Stores' old $90.0 million revolving credit facility and old $50.0 million letter of credit facility. Seasonally, the revolving credit facility and letter of credit facility were increased to $110.0 million and $75.0 million, respectively. Additionally, $55.0 million of uncommitted credit facilities were available at February 3, 1996, subject to the terms of the old revolving credit facility. The Company replaced the old credit facilities and refinanced the entire amounts outstanding thereunder with borrowings under the new Revolving Credit Facility.

The primary sources of liquidity for Kay-Bee have historically been cash flow from operations and borrowings from Melville. Net cash (used in) provided by operating activities was ($3.7) million, $73.2 million and $35.4 million in fiscal 1995, 1994 and 1993, respectively and ($92.4) million and ($127.1) million in the first fiscal quarter of 1996 and of 1995, respectively. Cash flow from operations in fiscal 1995 and the first fiscal quarter of 1996 and of 1995 was negatively affected by lower earnings. In addition, cash flow from operations in the first fiscal quarter of 1996 and 1995 was negatively affected by the seasonality of the toy business. Finally, cash flow from operations in the first fiscal quarter of 1996 and of 1995 was negatively affected by payments of accounts payable and accrued expenses and by higher inventory balances compared to year end 1995 and 1994.

Kay-Bee's capital expenditures for fiscal 1995, 1994 and 1993 and the first fiscal quarter of 1996 and of 1995 were $46.0 million, $37.0 million, $33.7 million, $4.2 million and $3.2 million, respectively. Capital expenditures related primarily to new store openings and the remodeling, relocation and expansion of existing stores. In addition, Kay-Bee incurred significant capital expenditures in fiscal 1994 and 1993 in connection with the expansion of its warehouse/distribution centers and improvements in its information systems.

Following the Acquisition

Since the Acquisition, the Company's liquidity requirements consist primarily of working capital needs, capital expenditures and scheduled payments of principal and interest on its indebtedness. The Company has significantly increased cash requirements for debt service relating to the new Revolving Credit Facility and the Subordinated Notes.

In connection with the Acquisition, the Company's principal operating subsidiary entered into the Revolving Credit Facility dated May 3, 1996 with a syndicate of financial institutions to provide the Company with senior bank financing in an aggregate principal amount of up to $600.0 million. The Revolving Credit Facility consists of a revolving loan facility (the "Revolver") with the amount available thereunder equal to $450.0 million and a letter of credit facility with up to $200.0 million available for the issuance of documentary and standby letters of credit. The Revolving Credit Facility has a maturity date of May 3, 1999. The Company borrowed approximately $360 million under the Revolver to finance the cash portion of the Acquisition, repay the existing senior debt and refinance the old credit facilities. The net proceeds from this Offering will be used to repay a portion of the borrowings incurred under the Revolving Credit Facility to finance the Acquisition.

The Revolving Credit Facility contains a number of covenants, including, among others, covenants restricting the Company with respect to the incurrence of indebtedness, the ability to declare, pay or make dividends or other distributions in excess of prescribed levels, the creation of liens, the making of certain investments and loans, engaging in unrelated business, the consummation of certain transactions such as sales of substantial assets, mergers or consolidations and other transactions. The Company also is required to comply with certain financial tests and maintain certain financial ratios.

On May 5, 1996, in connection with the Acquisition, the Company issued $100.0 million of Subordinated Notes to Melville. The Subordinated Notes mature in 2000 and bear interest at a rate of 7.0% 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 amount, plus accrued interest. The Indenture under which the Subordinated Notes were issued restricts the Company's ability to, among other things, incur indebtedness, merge, liquidate, pay dividends or make other restricted payments, engage in transactions with affiliates or enter into agreements containing payment restrictions affecting subsidiaries. The Indenture also contains provisions which, among other things, require that the Company, in the event of a Change in Control, or, in certain circumstances, an Asset Sale (each as defined in the Indenture), make an offer to purchase all or a specified amount of the Subordinated Notes at 101.0% or 100.0%, respectively, of the principal amount, plus accrued and unpaid interest through the purchase date.

The Company is anticipating total capital expenditures in fiscal 1996 to be approximately $100 million to, among other uses, fund the opening of new stores, the completion of the expansion of the Columbus, Ohio distribution center and the purchase of hardware related to the Company's inventory management systems. The Company believes cash flow generated from future operations and the availability of borrowings under the Revolving Credit Facility will be sufficient to fund its capital expenditures and seasonal operating requirements for the foreseeable future.

SEASONALITY

Consolidated Stores has historically experienced, and the Company expects to continue to experience, seasonal fluctuations with a significant percentage of its net sales and income being realized in the fourth fiscal quarter. The following table illustrates the seasonality in the net sales and operating income of Consolidated Stores and Kay-Bee.

	FISCAL 1995			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Consolidated Stores				
Net sales as a percent of full year	19.3%	21.5%	23.6%	35.6%
Operating income as a percent of full year	5.3	14.0	17.2	63.5
Kay-Bee				
Net sales as a percent of full year	15.6%	15.4%	16.7%	52.3%
Operating income as a percent of full year(1)	NM	NM	NM	100.0%

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NM -- Not meaningful.

(1) Excludes both the $65.8 million restructuring and asset impairment charge to cover the closing of 52 underperforming stores and the write-down of impaired assets and the $25.8 million of inventory clearance markdowns.

As a result of the Acquisition and the increase in the Company's retail toy operations, the Company expects to recognize an increasing amount of its net sales and income during the fourth fiscal quarter and to recognize operating losses during the other three fiscal quarters. 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.

BUSINESS

INDUSTRY OVERVIEW

Close-out retailing is a fast-growing segment of the U.S. retailing industry. Close-out retailers provide a valuable service to manufacturers by purchasing excess product that generally results from production overruns, package changes, discontinued products and returns. Close-out retailers also take advantage of generally lower prices in the off-season by buying and warehousing seasonal merchandise for future sale. As a result of these lower costs of goods sold, close-out retailers can offer merchandise at prices significantly lower than those offered by traditional retailers.

Recent trends in the retail industry are favorable to close-out 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 close-out retailers an integral part of manufacturers' overall distribution processes. As a result, manufacturers are increasingly looking for larger, more sophisticated close-out retailers, such as the Company, that can purchase larger quantities of merchandise and can control the distribution and advertising of specific products.

THE COMPANY

The Company is the nation's largest close-out retailer with 1,906 stores located in all 50 states and Puerto Rico. The Company operates 750 retail close-out stores, primarily under the names Odd Lots/Big Lots, iTZADEAL! and All For One, in the midwestern, southern and mid-Atlantic regions of the United States, and 1,156 retail toy stores throughout the United States and Puerto Rico primarily under the names Kay-Bee Toys, Toy Works, The Amazing Toy Store and Toy Liquidators. Approximately 1,045 of the Toy Stores were acquired as of May 5, 1996 in the Acquisition of Kay-Bee from Melville.

The Company's core close-out stores offer substantial savings on 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. In addition, these stores supplement their broad offering of items in core product categories with a changing mix of new merchandise and seasonal goods such as back-to-school and holiday merchandise. The Company's Toy Stores offer a broad variety of close-out toys, as well as in-line toys and traditional toy merchandise. The Company's close-out merchandise primarily consists of new, name-brand products obtained from manufacturers' excess inventories, which generally result from production overruns, package changes, discontinued products and returns.

Over the past five fiscal years, Consolidated Stores has experienced substantial growth in net sales, operating profit and earnings per share. Net sales have increased from $771.5 million in fiscal 1991 to $1,512.3 million in fiscal 1995, a compound annual growth rate of 18.3%. This growth has been driven by new store openings and comparable store sales gains. Consolidated Stores has increased the number of its stores from 337 to 861 during this five-year period, while total retail selling space increased from approximately 7,000,000 square feet to approximately 12,000,000 square feet, a compound annual growth rate of approximately 14.4%. Merchandising improvements have increased average sales per square foot from approximately $109 in fiscal 1991 to approximately $127 in fiscal 1995. Comparable store sales increases were 5.6%, 4.3%, 1.8%, 3.5% and 4.3% in fiscal 1991, 1992, 1993, 1994 and 1995, respectively. Consolidated Stores also has achieved profitability improvements with operating margins increasing from 5.0% in fiscal 1991 to 7.4% in fiscal 1995 and earnings per share increasing from $.44 per share to $1.32 per share during such period.

The Company was incorporated in Delaware in 1983. Its executive offices are located at 300 Phillipi Road, P.O. Box 28512, Columbus, Ohio 43228-0512, and its telephone number is (614) 278-6800.

ACQUISITION OF KAY-BEE

As of May 5, 1996, Consolidated Stores acquired Kay-Bee for a 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. 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. There are 918 Kay-Bee stores located in enclosed shopping malls and 127 located in strip shopping centers. The Company believes that Kay-Bee was the largest enclosed shopping mall-based toy retailer in the United States. On a pro forma basis, after giving effect to the Acquisition, the Company would have had net sales of $2,597.7 million in fiscal 1995. See "Acquisition of Kay-Bee Center, Inc."

Consolidated Stores has been in the toy retailing business since its inception and has operated stand-alone toy stores since its purchase of Toy Liquidators in 1994. The Acquisition has allowed the Company to expand significantly its retail toy store business at a relatively low cost. In addition, as a result of the Acquisition, the Company will more than double its purchases of close-out toys and become the largest purchaser of close-out toys in the United States. The Company expects that this combined purchasing power will enhance its ability to source high-quality close-out toys for all of its stores at competitive prices. Furthermore, the Company intends to gradually increase the percentage of higher-margin close-out toys at the Kay-Bee stores acquired in the Acquisition in order to increase both the gross margins and the value offering to customers in such stores. The Company also intends to eliminate duplicative administrative expenses resulting from the Acquisition.

Over the last several fiscal years, the management of Kay-Bee pursued a strategy of closing underperforming stores. In fiscal 1995, Kay-Bee incurred $65.8 million of restructuring and asset impairment charges to cover the closing of 52 underperforming stores and to write-down impaired assets. In addition, during December 1995, Kay-Bee undertook $25.8 million of inventory clearance markdowns in order to liquidate discontinued items and slower-moving merchandise. As a result, the Company does not anticipate it will incur any significant operating charges in connection with the Acquisition.

BUSINESS STRATEGY

The Company's goal is to build upon its leadership position in close-out retailing, one of the fastest growing segments of the retailing industry, by expanding its market presence in its existing and in new markets. The Company has adopted a business strategy of pursuing growth by capitalizing on the following competitive strengths: (i) its ability to offer name-brand products at discounted prices; (ii) its purchasing expertise and strong buying relationships; (iii) its ability to lease low-cost store sites in strip shopping centers, enclosed shopping malls and outlet malls on favorable terms; (iv) its ability to efficiently warehouse and distribute large quantities of merchandise; and (v) its focus on cost control.

- - Offering Name-Brand Merchandise at Deeply Discounted Prices.

As a retailer focused on close-out merchandise, the Company's goal is to provide budget-conscious consumers with a broad range of quality name-brand products at exceptional values. The Company purchases large quantities of name-brand close-out 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. 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, including food items, health and beauty aids, electronics, housewares, tools, paint, lawn and garden, hardware, sporting goods, toys and softlines, typically offering merchandise at prices 15% to 35% below those offered by other discount retailers and up to 70% below those offered by traditional retailers. 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. The Company has built strong relationships with many name-brand manufacturers and has capitalized on its purchasing power in the close-out marketplace in order to source merchandise that provides exceptional value to customers. As the largest retailer of close-out merchandise in the United States, the Company generally has the ability to purchase all of a manufacturer's close-out 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. Furthermore, the Company's strong buying relationships and financial flexibility enable it to purchase merchandise off-season, typically at lower costs. The Company has relationships with, and regularly purchases merchandise from, over 2,000 vendors, which provides the Company with multiple sources for each product category. The Company has significantly expanded its vendor base over the past several fiscal years as a result of its size, credibility, financial strength and seasoned buying team.

- - Low Cost Site Selection.

The Company has developed a real estate strategy 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.

- - Efficient Warehouse/Distribution Operations.

Since 1990, the Company has focused on increasing the efficiency and reducing the cost of its operations in order to improve profitability and enhance its competitive position. The Company believes it operates the largest retail warehouse/distribution center of its kind in the United States, which covers 2,884,100 square feet. The size of this facility enables the Company to store large quantities of merchandise purchased off-season at low prices for distribution to its stores at a later date. This highly automated facility uses bar code scanning and high-speed sortation systems to process and distribute large quantities of constantly changing merchandise in a timely and cost-efficient manner. In addition, the Company will begin implementing sophisticated new information systems in fiscal 1996 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.

- - 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.

GROWTH STRATEGY

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. The Company's growth strategy is to increase net sales and earnings through: (i) new store expansion; (ii) comparable store sales increases; (iii) the realization of synergies from the Acquisition; and (iv) selective acquisitions.

- - New Store Expansion.

The Company intends to increase retail selling space by approximately 10% to 15% per fiscal year. Currently, the Company's stores are located primarily in the midwestern, southern and mid-Atlantic regions of the United States. Management believes that there are substantial opportunities to increase the store count in the Company's existing markets and that the southern region of the United States represents a near-term opportunity for filling in its existing markets. The Company has been able to operate profitably a large number of stores in relatively close proximity in markets with favorable demographics and suitable store sites. For example, the Company operates 105 of the total 541 Odd Lots/Big Lots stores in Ohio. In addition, the Company believes the southwestern and western areas of the United States have significant longer-term growth potential because the Company has few stores in these regions.

Odd Lots/Big Lots. At the end of fiscal 1995, the Company operated 541 Odd Lots/Big Lots stores in 22 states. The Company believes there are significant opportunities to increase the store count in existing markets. The Company also expects significant opportunities for growth in new geographic regions of the United States, where the Company has few stores. In fiscal 1996, the Company expects to open 65 to 75 new Odd Lots/Big Lots stores (net of store closings).

Toy Stores. The Company has a large presence in enclosed shopping malls with 918 toy stores under the name Kay-Bee Toys. In addition, the Company has 141 toy stores located in strip shopping centers primarily under the names Kay-Bee Toys, Toy Works and The Amazing Toy Store and 97 toy stores located in outlet malls under the name Toy Liquidators. The Company does not expect to significantly increase the number of enclosed shopping mall-based toy stores, but does plan to open 40 to 50 new toy stores (net of store closings) in strip shopping centers in fiscal 1996. These smaller strip shopping center stores strive to appeal to customers seeking value and the convenience not offered by toy superstores. The Company believes that the opening of toy stores in strip shopping centers has significant potential for growth over the next several years, particularly in the midwestern and southern regions of the United States. Also, in fiscal 1996, the Company plans to add 10 to 20 new Toy Liquidators stores (net of store closings) in outlet malls, where the Company is usually the only toy store.

iTZADEAL! and All For One. The Company has 64 iTZADEAL! and 145 All For One stores operating in 18 states. The Company plans to appeal to the value-oriented shopper by opening approximately 10 iTZADEAL! stores in high-traffic strip shopping centers in fiscal 1996. The Company intends to close 15 to 20 enclosed shopping mall-based All For One stores as their leases expire in fiscal 1996 in order to focus more fully on the better growth opportunities provided by the iTZADEAL! stores.

- - Comparable Store Sales Increases.

The Company continually seeks to increase comparable store sales and has undertaken several initiatives which it believes should positively affect comparable store sales over the next several years. The Company is seeking to attract new customers and gradually increase the size of its average transaction by introducing and expanding key merchandise categories such as toys, electronics (including telephones, answering machines and portable stereos) and furniture and gradually modifying its merchandise mix to include a greater percentage of items with higher average retail price points. In addition, the Company has recently introduced television advertising in certain markets. The Company intends to expand and refine its use of television advertising to increase awareness of its stores and to attract new and repeat customers. Furthermore, over the next two fiscal years, the Company will rollout an improved inventory management system that the Company expects will allow it to improve its process of allocating specific products to individual stores based on an item's sales performance and inventory levels.

- - Realization of Kay-Bee Acquisition Synergies.

The Company believes there are several strategic benefits that can be achieved as a result of the Acquisition. With the Acquisition, the Company will more than double its purchases of close-out toys and become the largest purchaser of close-out toys in the United States. The Company expects that this increased purchasing power will enhance its ability to source high-quality close-out toys for all of its stores at competitive prices. In addition, the Company intends to (i) gradually increase the percentage of higher-margin close-out toys at the Kay-Bee stores in order to increase both gross margins and the value offered to customers in such stores and (ii) pursue the elimination of duplicative administrative expenses resulting from the Acquisition.

- - Selective Acquisitions.

Consolidated Stores has grown, in part, through selective acquisitions, and the Company believes that the current consolidation of retailers may present opportunities for further strategic acquisitions. Although no additional acquisitions are currently being considered, the Company will continue to review acquisitions in the future as opportunities arise.

RETAIL OPERATIONS

Odd Lots/Big Lots

Odd Lots/Big Lots stores, which would have contributed approximately 49.5% of the Company's pro forma combined net sales in fiscal 1995, 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. Odd Lots/Big Lots also sell factory reconditioned products and lower-priced, private-label merchandise in selected product categories. These 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.

Nearly all of the Company's 541 Odd Lots/Big Lots stores are located in strip shopping centers. Presently, a majority of the Odd Lots/Big Lots stores are located in the midwestern, southern and mid-Atlantic regions of the United States. Individual stores range in size from 10,080 square feet to 81,193 square feet and average approximately 27,860 square feet. In selecting suitable new store locations, the Company generally seeks retail space between 22,000 square feet and 30,000 square feet in size. In fiscal 1995, the average cost to open a new Odd Lots/Big Lots store in a leased facility was $710,000, including inventory.

The Company plans to open 65 to 75 new Odd Lots/Big Lots stores (net of store closings) during fiscal 1996, all of which will be leased. Because of their low operating costs, Odd Lots/Big Lots stores are generally profitable within their first full year of operation. Management regularly monitors all stores against established profitability standards and evaluates underperforming stores on an individual basis.

Toy Stores

The Company's Toy Stores, which would have contributed approximately 44.7% of the Company's pro forma combined net sales in fiscal 1995, are located in enclosed shopping malls, outlet malls and strip shopping centers. Kay-Bee Toys stores, which are generally located in enclosed shopping malls, carry a combination of in-line toys and close-out merchandise. Toy Liquidators stores, which are located in outlet malls, and The Amazing Toy Store and Toy Works stores, which are located in strip shopping centers, carry primarily close-out toys supplemented by selected in-line toys.

The Company's 1,156 Toy Stores are located in enclosed shopping malls, outlet malls and strip shopping centers across the United States. Enclosed shopping mall-based stores range in size from 2,000 square feet to 8,035 square feet and average approximately 3,750 square feet. Outlet mall stores range in size from 3,500 square feet to 6,100 square feet and average approximately 4,723 square feet. Strip shopping center stores have historically ranged in size from 3,000 to 24,220 square feet, and the Company believes the average size of new strip shopping center stores will be approximately 6,000 square feet.

During fiscal 1996, the Company plans to open 40 to 50 Toy Stores (net of store closings) in strip shopping centers and 10 to 20 Toy Stores (net of store closings) in outlet malls, all of which will be leased. In seeking suitable new store locations, the Company generally seeks retail space in both high-traffic strip shopping centers and outlet malls. In fiscal 1995, the average cost to open a new outlet mall store or strip shopping center store was $185,000, including inventory. The Company does not expect to increase significantly the number of enclosed shopping mall-based Toy Stores.

In addition, Kay-Bee opened 34 temporary retail stores in enclosed shopping malls during the 1995 fall/winter holiday season. These temporary stores, which carried primarily close-out merchandise, were open for approximately six to eight weeks and allowed Kay-Bee to increase sales and profits during the peak holiday selling season by utilizing vacant store space obtained on favorable terms. The average size of the temporary stores was approximately 3,750 square feet.

iTZADEAL! and All For One

iTZADEAL! and All For One stores, which would have contributed approximately 4.1% of the Company's pro forma combined net sales in fiscal 1995, carry various core merchandise categories such as snack foods, health and beauty care products, greeting cards, toys, household cleaning products and housewares that are also available in Odd Lots/Big Lots stores. iTZADEAL! stores are located in strip shopping centers and offer a varying selection of merchandise at a range of prices generally under $10.00. All For One stores, located primarily in enclosed shopping malls, offer merchandise principally at the single price of $1.00.

Of the Company's 209 iTZADEAL! and All For One stores, 115 are located in strip shopping centers and 94 are located in enclosed shopping malls. Most of the iTZADEAL! and All For One stores are located in the midwestern region of the United States. Individual stores range in size from 1,833 square feet to 10,889 square feet and average approximately 4,574 square feet. In seeking suitable new store locations, the Company generally seeks retail space in high-traffic strip shopping centers between 5,000 square feet and 8,000 square feet in size. In fiscal 1995, the average cost to open a new iTZADEAL! or All For One store was $160,000, including inventory.

The Company plans to open approximately 10 new iTZADEAL! stores in strip shopping centers during fiscal 1996, all of which will be leased. In addition, the Company intends to close 15 to 20 enclosed shopping mall-based All For One stores as their leases expire in fiscal 1996 in order to focus more fully on the better growth opportunities provided by the iTZADEAL! stores.

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. Historically, the Company's total advertising expense as a percent of total net sales has been approximately 3.0%.

Odd Lots/Big Lots

The Company's marketing program for its Odd Lots/Big Lots stores is designed to create an awareness of the broad range of quality, name-brand merchandise available at low prices. The Company utilizes a combination of weekly advertising circulars in all markets and television advertising in select markets. The Company currently distributes approximately 22 million four-page circulars 42 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 25 to 30 products that vary each week. The Company selects certain markets to run television promotions based upon factors unique to each market, including the number of stores, cost of local media and results of preliminary testing. The Company runs multiple 30-second television spots per week, each of which feature four to six 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.

Toy Stores

Kay-Bee Toys stores have historically used a combination of a holiday promotion catalog as well as periodic in-store sales and store signs to promote their products. Advertising costs are generally below 3.0% of total net sales. Kay-Bee Toys stores receive the benefit of large amounts of customer traffic in enclosed shopping malls. Similarly, The Amazing Toy Store, Toy Liquidators and Toy Works stores have relied primarily on existing customer traffic and in-store signs to promote their products.

iTZADEAL! and All For One

iTZADEAL! and All For One stores rely primarily on customer traffic and in-store signs to attract shoppers to the stores.

PURCHASING

An integral part of the Company's business is its ability to select and purchase quality close-out merchandise directly from manufacturers and other vendors at prices substantially below those paid by conventional retailers. 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 close-out industry, many manufacturers offer purchase opportunities to the Company prior to attempting to dispose of their merchandise through other channels. The Company regularly purchases manufacturers' excess inventories, which generally result from production overruns, package changes, discontinued products and returns. Due to its size, credibility and financial strength, the Company frequently purchases all or substantially all of a given manufacturer's close-out products, thus providing a superior level of service and convenience to its vendors. The Company supplements its traditional name-brand close-out purchases with a limited amount of program buys and private-label merchandise.

The Company's merchandise is purchased from over 2,000 foreign and domestic suppliers providing the Company with multiple sources for each product category. In fiscal 1995, Consolidated Stores' top ten vendors accounted for 12% of total purchases with no one vendor accounting for more than 1.8%. Additionally, during fiscal 1995 the Company's top five toy vendors, on a pro forma combined basis, would have provided approximately 24% of the Company's toy merchandise. The Company purchases approximately 20% to 25% of its products directly from overseas suppliers including products such as seasonal items, toys, tools, housewares, giftware and novelties. See "Risk Factors -- Impact of Foreign Imports."

As a result of the Acquisition, the Company will more than double its purchases of close-out toys and become the largest purchaser of close-out toys in the United States. The Company expects that this combined purchasing power will enhance its ability to source high-quality close-out toys for all of its stores at competitive prices. See "Risk Factors -- Purchasing of Suitable Merchandise."

WAREHOUSING AND DISTRIBUTION

An important aspect of the Company's purchasing strategy involves its ability to warehouse and distribute merchandise quickly and efficiently. The Company's 2,884,100 square foot primary warehouse/distribution center, located in Columbus, Ohio, utilizes two high-speed tilt tray sortation systems with a combined output that currently exceeds 150,000 cartons per day. These systems include a fully automated warehouse management system that incorporates high-speed bar code scanning to efficiently sort and load high merchandise volumes for immediate store delivery. Typically, a retail store receives additional inventory once a week (usually within 24 hours of dispatch) via a dedicated trucking fleet and outside transportation companies.

Another important part of the Company's purchasing strategy is its ability to buy large quantities of merchandise off-season at low prices. As a result, the Company must warehouse the merchandise until the appropriate season. Therefore, the Company maintains higher inventories than most conventional retailers.

For its Kay-Bee Toys and Toy Works stores, the Company has four warehouse/distribution centers located in Arizona, Kentucky, Massachusetts and Pennsylvania, totaling 1,069,500 square feet. These warehouse/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 retail stores. The combined output of these warehouse/distribution centers currently averages over 53,000 cartons per day.

The Company is constructing a new 810,000 square foot warehouse/distribution facility on its existing acreage in Columbus, Ohio, which is expected to be completed in June 1996. The Company is evaluating the addition of strategically placed warehouse/distribution facilities to facilitate its growth. Currently, the Company expects that it will add at least one warehouse/distribution center in the Southeast to supplement the Kay-Bee Toys and Toy Works warehouse/distribution system.

INFORMATION SYSTEMS

The Company has continued to enhance its information systems to support growth and the operations of its business over the last five fiscal years. 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.

During fiscal 1996 and 1997, the Company will begin to rollout its next generation of inventory management systems. 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 rollout for this system, allowing for thorough testing and review prior to start up. Initial implementation is planned for the smaller iTZADEAL! and All For One stores in fiscal 1996 while implementation for Odd Lots/Big Lots stores is currently scheduled for 1997.

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 operation. 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 March 31, 1996, Consolidated Stores had 21,633 active associates comprised of 7,892 full-time and 13,741 part-time associates, and Kay-Bee had 8,996 active associates comprised of 3,329 full-time and 5,667 part-time associates. Approximately two-thirds of the associates employed by Consolidated Stores and Kay-Bee were employed on a part-time basis. Temporary associates hired during the fall/winter holiday selling season increased the number of associates to peaks of 27,962 and 18,499 for Consolidated Stores and Kay-Bee, respectively, during fiscal 1995. The relationship with associates is considered to be good, and the Company is not a party to any labor agreements.

PROPERTIES

Corporate, Warehouse and Distribution

The Company owns a 2,884,100 square foot office, warehouse/distribution facility located in Columbus, Ohio. Approximately 150,000 square feet of this facility is utilized as office space for corporate offices. The balance represents warehouse and distribution space. Warehousing and distribution is also conducted from leased locations principally located in central Ohio which total approximately 1,006,000 square feet. Substantially all the close-out merchandise sold by the Company is received at the Columbus warehouse/ distribution center and is processed for retail sale, as necessary, and distributed to the retail location or wholesale customer.

Kay-Bee's executive offices occupy 113,400 square feet of leased space in Pittsfield, Massachusetts. Currently, the corporate offices are located in three separate office buildings which are all in close proximity to one another. The Company has warehouse/distribution centers in Glendale, Arizona; Danville, Kentucky; Pittsfield, Massachusetts; and Mount Pocono, Pennsylvania, occupying 367,000, 300,000, 254,000 and 148,500 square feet of space, respectively, where substantially all the toy merchandise sold by the Company's Kay-Bee Toys and Toy Works stores is received, processed and distributed. The Massachusetts and Arizona warehouse/distribution centers are owned by the Company while the Kentucky and Pennsylvania warehouse/distribution centers are leased. In addition to these locations, the Company leases additional temporary space at locations near the warehouse/distribution centers to store its expanded inventory.

Stores

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 maintenance. The Kay-Bee Toys and Toy Works stores leases generally include mall 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 close-out 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 Kay-Bee Toys and Toy Works stores is for an initial term of 10 years with various renewal options. The following tables set forth store lease expiration and state location information for existing store leases at February 3, 1996, including information for the Kay-Bee Toys and Toy Works stores as of May 5, 1996.

	NUMBER OF LEASES EXPIRING				NUMBER OF LEASES EXPIRING WITHOUT RENEWAL OPTIONS			
FISCAL YEAR	ODD LOTS/ BIG LOTS	ITZADEAL! AND ALL FOR ONE	TOY STORES	TOTAL	ODD LOTS/ BIG LOTS	ITZADEAL! AND ALL FOR ONE	TOY STORES	TOTAL
1996	102	25	160	287	23	11	132	166
1997	112	87	194	393	26	28	162	216
1998	79	31	174	284	19	12	155	186
1999	113	24	145	282	29	17	124	170
2000	95	24	152	271	18	3	109	130
2001 and beyond	40	18	331	389	17	16	178	211
	541	209	1,156	1,906	132	87	860	1,079

The Company operates 1,906 retail stores located in all 50 states and Puerto Rico. The following store list shows the number and types of stores that the Company operates in each state and Puerto Rico.

	ODD LOTS/ BIG LOTS	ITZADEAL! AND ALL FOR ONE	TOY STORES	TOTAL
Alabama.......	19	--	17	36
Alaska........	--	--	4	4
Arizona.......	--	--	17	17
Arkansas......	--	--	8	8
California....	--	--	115	115
Colorado......	--	4	17	21
Connecticut...	--	--	30	30
Delaware......	--	--	4	4
Florida.......	56	18	60	134
Georgia.......	33	1	27	61
Hawaii........	--	--	8	8
Idaho.........	--	--	7	7
Illinois......	20	23	42	85
Indiana.......	36	19	29	84
Iowa..........	--	6	10	16
Kansas........	6	--	7	13
Kentucky......	28	17	13	58
Louisiana.....	6	--	17	23
Maine.........	--	--	8	8
Maryland......	3	2	36	41
Massachusetts..	--	--	39	39
Michigan......	34	23	38	95
Minnesota.....	--	4	12	16
Mississippi...	10	--	8	18
Missouri......	13	3	20	36
Montana.......	--	--	3	3
Nebraska.........	--	1	8	9
Nevada...........	--	--	5	5
New Hampshire....	--	--	9	9
New Jersey.......	--	--	36	36
New Mexico.......	--	--	7	7
New York.........	10	--	84	94
North Carolina...	25	--	32	57
North Dakota.....	--	--	4	4
Ohio.............	105	56	46	207
Oklahoma.........	--	--	12	12
Oregon...........	--	--	9	9
Pennsylvania.....	22	9	60	91
Puerto Rico......	--	--	14	14
Rhode Island.....	--	--	4	4
South Carolina...	18	--	17	35
South Dakota.....	--	--	2	2
Tennessee........	35	7	25	67
Texas............	6	--	71	77
Utah.............	--	--	8	8
Vermont..........	--	--	4	4
Virginia.........	24	8	43	75
Washington.......	--	--	24	24
West Virginia....	22	7	12	41
Wisconsin........	10	--	21	31
Wyoming..........	--	1	3	4

	ODD LOTS/ BIG LOTS	ITZADEAL! AND ALL FOR ONE	TOY STORES	TOTAL
Total Stores.....	541	209	1,156	1,906
Number of States and Puerto Rico.....	22	18	51	51

COMPETITION

The retail industry is highly competitive. The Company's retail close-out 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 retail toy operations 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.

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.

ACQUISITION OF KAY-BEE CENTER, INC.

The following summary of the material provisions of the Stock Purchase Agreement is subject to, and is qualified in its entirety by reference to, all of the provisions of the Stock Purchase Agreement, including the definitions therein of certain terms.

Pursuant to the Stock Purchase Agreement dated March 25, 1996, Consolidated Stores acquired from Melville all of the issued and outstanding common stock of Kay-Bee Center, Inc., a California corporation and a holding company for approximately 800 Kay-Bee subsidiaries, which operate approximately 1,045 retail toy stores. Consolidated Stores effected the Acquisition through KB Consolidated, Inc., a newly formed Ohio subsidiary of Consolidated Stores. The Acquisition was effective as of 12:01 a.m. on May 5, 1996.

The 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 as of May 4, 1996 (for purposes of the Stock Purchase Agreement, the "Closing Date"). Of this purchase price, $215 million was paid in cash and $100 million was financed by the Subordinated Notes issued by the Company to Melville. The purchase price was based on the estimated net book value of Kay-Bee as of December 31, 1995.

The Stock Purchase Agreement provides for a dollar-for-dollar post-closing adjustment of the purchase price in the event that the final net book value of Kay-Bee as of the Closing Date differs from the estimated net book value of $323 million. Melville must provide an audited closing balance sheet of Kay-Bee as of the Closing Date setting forth the calculation of the final net book value to Consolidated Stores within 60 days of the Closing Date.

Under the Stock Purchase Agreement, Melville made certain customary representations, warranties and covenants regarding, among other things, the capitalization, liabilities, operations, contracts, employees, employee benefit plans, litigation, environmental condition and financial statements of Kay-Bee and the corporate authority to consummate the Acquisition. With certain exceptions as discussed below, Melville's representations and warranties expire 18 months after the Closing Date. The representations and warranties relating to (i) environmental matters will survive for three years after the Closing Date and (ii) tax matters and employee benefits will survive until the expiration of applicable statutes of limitations. Melville has agreed to indemnify Consolidated Stores and its affiliates against, among other things, losses arising from the breach of any warranty, covenant or agreement made by Melville which survives the Closing Date and any damages under the Worker Adjustment Retraining Notification Act for occurrences prior to the closing of the Stock Purchase Agreement. Claims against Melville for losses under the indemnities (other than for certain specified items including, fraud, retained litigation, taxes, certain lease obligations and certain obligations with respect to specified employee plans and benefits) for the breach of representations and warranties must aggregate 2% of the purchase price before claims can be made against Melville, and then Melville will only be liable for the excess over 1% of the purchase price. Melville's maximum exposure to liability pursuant to its indemnities is the purchase price, as adjusted.

MANAGEMENT

The following tables set forth certain information about the executive officers and directors of the Company.

EXECUTIVE OFFICERS

NAME	AGE	OFFICES HELD	OFFICER SINCE
William G. Kelley........	50	Chairman of the Board and Chief Executive Officer	1990
Michael L. Glazer........	48	President	1995
Albert J. Bell...........	36	Senior Vice President, Legal, Real Estate, Secretary and General Counsel	1988
Michael J. Potter........	34	Senior Vice President and Chief Financial Officer	1991
James A. McGrady.........	45	Vice President and Treasurer	1991
Mark D. Shapiro..........	36	Vice President and Controller	1994
C. Matthew Hunnell.......	33	Senior Vice President-Merchandising	1995
Charles Freidenberg......	50	Senior Vice President-Merchandising	1995

BOARD OF DIRECTORS

NAME	AGE	PRINCIPAL OCCUPATION FOR THE PAST FIVE YEARS	DIRECTOR SINCE
William G. Kelley........	50	Chairman of the Board and Chief Executive Officer of the Company	1990
Michael L. Glazer........	48	President of the Company; Former President, The Bombay Company (retail home furnishings); former Executive Vice President, The Bombay Company	1991
David T. Kollat..........	57	President and Founder, 22, Inc. (retail research and consulting)	1990
Nathan P. Morton.........	47	President and Chief Executive Officer, Open Environment Corporation (software development)	1990
John L. Sisk.............	68	Retired, Chairman and Chief Executive Officer, Herman's World of Sporting Goods (retail stores)	1990
Dennis B. Tishkoff.......	53	President and Chief Executive Officer, Shoe Corporation of America (retail footwear)	1991
William A. Wickham.......	51	President, Chief Executive Officer, SBC Advertising (advertising and corporate communications agency)	1992
Sheldon M. Berman........	55	Chairman, Macaroons, Inc. (consumer research and marketing services); former Chairman, President and founder, Shelly Berman Communicators (retail marketing and advertising)	1994

Six meetings of the Board of Directors (the "Board") of Consolidated Stores were held during fiscal 1995. Each director attended at least 80% of the meetings of the Board, and the committees on which he served, during the period for which he served as a director during the fiscal year.

The Board has an Audit Committee, a Compensation Committee and a Nominating Committee. Messrs. Tishkoff, Sisk and Wickham are the members of the Audit Committee, which monitors the activities of the Company's independent auditors and its internal audit functions. The Audit Committee met three times during fiscal 1995. Messrs. Kollat, Sisk and Tishkoff are the members of the Compensation Committee, which administers the Company's stock option plans and advises the Board with respect to compensation matters. The Compensation Committee met three times during fiscal 1995. Messrs. Berman, Kelley, Kollat and Morton are the members of the Nominating Committee, which is responsible for interviewing and nominating candidates for election as directors of the Company. The Nominating Committee did not meet during fiscal 1995. The Nominating Committee will not consider nominees recommended by security holders.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company currently consists of 90,000,000 shares of Common Stock, par value $.01 per share, 8,000,000 shares of Non-Voting Common Stock, par value $.01 per share ("Non-Voting Common Stock"), and 2,000,000 shares of Preferred Stock, par value $.01 per share ("Preferred Stock"), of which 600,000 shares have been designated as Series A Junior Participating Preferred Stock. On May 17, 1996, 48,105,521 shares of Common Stock were outstanding and held by 1,306 holders of record, and no shares of Non-Voting Common Stock or Preferred Stock were outstanding.

COMMON STOCK

Holders of Common Stock are entitled to one vote per share in the election of directors and on all other matters submitted to a vote of stockholders. Such holders do not have the right to cumulate their votes in the election of directors. Holders of Common Stock have no redemption or conversion rights and no preemptive or other rights to subscribe for securities of the Company. In the event of a liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share equally and ratably in all of the assets remaining, if any, after satisfaction of all debts and liabilities of the Company and the preferential rights of any series of Preferred Stock then outstanding. The shares of Common Stock outstanding are, and all shares of Common Stock to be issued in the Offering will be, fully paid and non-assessable.

Holders of Common Stock have an equal and ratable right to receive dividends, when, as and if declared by the Board of Directors out of funds legally available therefor and only after payment of, or provision for, full dividends on all outstanding shares of any series of Preferred Stock and after the Company has made provision for any required sinking or purchase funds for series of Preferred Stock. See "Price Range of Common Stock."

Shares of the Non-Voting Common Stock are convertible, upon a public offering or public sale by the holder, into the Common Stock on a one-for-one basis provided that as a result of the conversion the holder and its affiliates do not, directly or indirectly, own, control or possess the power to vote more securities issued by the Company than such holder is permitted to own, control or possess under any applicable law or governmental regulation.

PREFERRED STOCK

Preferred Stock may be issued, from time to time in one or more series, and the Board, without further approval of the stockholders, is authorized to fix the dividend rights and terms, redemption rights and terms, liquidation preferences, conversion rights, voting rights and sinking fund provisions applicable to each such series of Preferred Stock. If the Company issues a series of Preferred Stock in the future that has voting rights or preference over the Common Stock with respect to the payment of dividends and upon the Company's liquidation, dissolution or winding up, the rights of the holders of the Common Stock offered hereby may be adversely affected. Preferred Stock may be issued in the future in connection with acquisitions, financings or other such matters as the Board deems to be appropriate. Without stockholder approval, the Board, within the bounds of and subject to federal securities laws and Delaware law, could authorize the issuance of Preferred Stock which may have the effect of making a takeover of the Company unpalatable to potential bidders for the hostile acquisition of the Company.

STOCKHOLDERS' RIGHTS AGREEMENT

On April 18, 1989, the Board of Consolidated Stores declared a dividend distribution of one right (a "Right") for each outstanding share of Common Stock of the Company, payable to stockholders of record at the close of business on April 24, 1989, and authorized the attachment of Rights to all shares of Common Stock issued thereafter, including Common Stock offered in the Offering. Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of Series A Junior Participating Preferred Stock at a purchase price of $35 per Unit (the "Purchase Price"), subject to adjustment.

The Rights will separate from the Common Stock and a distribution date (the "Distribution Date") will occur upon the earlier of (i) ten business days following a public announcement that a person or group of affiliated or associated persons other than the Company and its subsidiaries or benefit plans (an "Acquiring Person") has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding shares of the Common Stock (the "Stock Acquisition Date") or (ii) ten business days (or such later date as may be determined by the Company's Board) following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of such outstanding shares of the Common Stock.

Until the Distribution Date, (i) the Rights will be evidenced by the certificates of the Common Stock and will be transferred with and only with such certificates, (ii) new Common Stock certificates issued after April 24, 1989 will contain a notation incorporating the Rights Agreement by reference and (iii) the surrender or transfer of any certificates of the Common Stock outstanding will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate.

The Rights are not exercisable until the Distribution Date and will expire at the close of business on April 18, 1999, unless earlier redeemed by the Company.

In the event that a person becomes the beneficial owner of 20% or more of the then outstanding shares of the Common Stock (except pursuant to a tender offer or exchange offer for all outstanding shares of Common Stock at a price and on terms determined by at least a majority of the Board who are not officers of the Company or representatives of an Acquiring Person to be (i) at a price which is fair to the Company's stockholders and (ii) otherwise in the best interests of the Company and its stockholders), each holder of a Right shall thereafter have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the Right. Notwithstanding any of the foregoing, following the occurrence of any of the events set forth in this paragraph, all Rights that are, or (under certain circumstances) were, beneficially owned by any Acquiring Person will be null and void. However, Rights are not exercisable following the occurrence of either of the events set forth above until such time as the Rights are no longer redeemable by the Company.

In the event that, at any time following the Stock Acquisition Date, (i) the Company is acquired in a merger or other business combination transaction in which the Company is not the surviving corporation (other than mergers which follow certain types of offers) or (ii) more than 50% of the Company's assets, cash flow or earning power is sold or transferred, each holder of a Right (except voided Rights) shall thereafter have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the Right. In the event that Rights cannot be exercised for common stock of the acquiring company as set forth above, holders of Rights will be entitled to put the Rights to the Acquiring Person for cash equal to the Purchase Price.

The Purchase Price payable, and the number of Units of the Preferred Stock or other securities or property issuable, upon exercise of the Rights is subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Stock, (ii) if holders of the Preferred Stock are granted certain rights or warrants to subscribe for the Preferred Stock or convertible securities at less than the current market price of the Preferred Stock or (iii) upon the distribution to holders of the Preferred Stock of evidences of indebtedness or assets (excluding regular quarterly cash dividends) or of subscription rights or warrants (other than those referred to above).

In general, at any time until the close of business on the tenth business day following the Stock Acquisition Date, the Company may redeem the Rights in whole, but not in part, at a price of $.01 per Right (payable in cash, Common Stock or other consideration deemed appropriate by the Board). Immediately upon the action of the Board ordering redemption of the Rights, the Rights will terminate and the only right of the holders of Rights will be to receive the $.01 redemption price.

CHANGE OF CONTROL

Section 203 of the Delaware General Corporation Law generally prohibits a public Delaware corporation, including the Company, from engaging in a Business Combination (as defined herein) with an Interested Stockholder (as defined herein) for a period of three years after the date of the transaction in which an Interested Stockholder became such, unless: (i) the board of directors of the corporation approved, prior to the date the Interested Stockholder became such, either such Business Combination or such transaction; (ii) upon consummation of such transaction, the Interested Stockholder owns at least 85% of the voting shares of such corporation (excluding specified shares); or (iii) the Business Combination is approved by the board of directors of the corporation and authorized by the affirmative vote (at an annual or special meeting and not by written consent) of at least 66 2/3% of the outstanding voting shares of the corporation (excluding shares held by the Interested Stockholder). A "Business Combination" includes (i) mergers, consolidations and sales or other dispositions of 10% or more of the assets of a corporation to or with an Interested Stockholder, (ii) certain transactions resulting in the issuance or transfer to an Interested Stockholder of any stock of such corporation or its subsidiaries and (iii) other transactions resulting in a disproportionate financial benefit to an Interested Stockholder. An "Interested Stockholder" is a person who, together with its affiliates and associates, owns (or within a three-year period did own) 15% or more of a corporation's stock entitled to vote generally in the election of directors.

SHARES ELIGIBLE FOR FUTURE SALE

Upon consummation of this Offering, the Company will have outstanding 53,105,521 shares of Common Stock, of which 52,995,521 shares will be freely transferable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"), including the 5,000,000 shares offered hereby. The other outstanding shares of Common Stock will be "restricted securities" as that term is defined in Rule 144 promulgated under the Securities Act and may only be sold pursuant to a registration statement under the Securities Act or an applicable exemption from registration pursuant to Rule 144 promulgated thereunder. In connection with the Offering, the Company has agreed that, during a period of 150 days from the date of this Prospectus, it will not, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise except for (a) shares of Common Stock to be issued in the Offering, (b) any shares of Common Stock issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in this Prospectus or (c) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to the Consolidated Stores Corporation 1996 Performance Incentive Plan, Restricted Stock Plan or Director Stock Option Plan. In addition, certain officers and directors of the Company who own Common Stock have agreed that during a period of 150 days from the date of this Prospectus, such holders will not, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and subject to certain exceptions, directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of the Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock, whenever acquired, or with respect to which such holders acquire the power of disposition, or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise. Upon expiration of such 150-day period, the Company and such holders will be able to sell all or a portion of their shares and the Company will be able to issue shares, in each case in accordance with applicable securities law, including, in the case of public sales, volume, manner of sale and other limitations under Rule 144. Sales or the expectation of sales of a substantial number of shares of Common Stock in the public market could adversely affect the prevailing market price for the Common Stock. See "Price Range of Common Stock."

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is National City Bank.

UNDERWRITING

Subject to the terms and conditions set forth in a purchase agreement (the "Purchase Agreement"), the Company has agreed to sell to each of the Underwriters named below (the "Underwriters"), and each of the Underwriters, for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), Montgomery Securities and McDonald & Company Securities, Inc. are acting as representatives (the "Representatives"), has severally agreed to purchase from the Company the aggregate number of shares of Common Stock set forth opposite its name below. In the Purchase Agreement, the several Underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all the shares of Common Stock offered hereby, if any are purchased. In the event of default by an Underwriter, the Purchase Agreement provides that, in certain circumstances, purchase commitments of the nondefaulting Underwriters may be increased or the Purchase Agreement may be terminated.

UNDERWRITER	NUMBER OF SHARES
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Montgomery Securities	
McDonald & Company Securities, Inc.	
Total	5,000,000

The Representatives have advised the Company that the Underwriters propose initially to offer the Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, a discount not in excess of $ per share on sales to certain other dealers. After the Offering, the public offering price, concession and discount may be changed.

The Company has granted the Underwriters an option, exercisable for 30 days after the date of this Prospectus, to purchase up to 750,000 additional shares of Common Stock solely to cover over-allotments, if any, at the public offering price set forth on the cover page of this Prospectus, less the underwriting discount. To the extent that the Underwriters exercise such option, each of the Underwriters will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage of such shares that the number of shares of Common Stock to be purchased by it shown in the foregoing table bears to the total number of shares initially offered to the Underwriters hereby.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Underwriters may be required to make in respect thereof.

In connection with the Offering, the Company has agreed that, during a period of 150 days from the date of this Prospectus, it will not, without the prior written consent of Merrill Lynch, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise except for (a) shares of Common Stock to be issued in the Offering, (b) any shares of Common

Stock issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in this Prospectus or (c) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to the Consolidated Stores Corporation 1996 Performance Incentive Plan, Restricted Stock Plan or Director Stock Option Plan. In addition, certain officers and directors of the Company who own Common Stock have agreed that during a period of 150 days from the date of this Prospectus, such holders will not, without the prior written consent of Merrill Lynch and subject to certain exceptions, directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of the Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock, whenever acquired, or with respect to which such holders acquire the power of disposition, or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise.

Merrill Lynch, from time to time, performs investment banking and other financial services for the Company for which it receives customary fees. In connection with the Acquisition, Merrill Lynch provided the Company with a bridge loan facility that has not been utilized and for which it received customary fees.

LEGAL MATTERS

The validity of the issuance of the Common Stock offered hereby will be passed upon for the Company by Benesch, Friedlander, Coplan & Aronoff P.L.L., Cleveland, Ohio. Certain legal matters relating to the Offering will be passed upon for the Underwriters by Shearman & Sterling, New York, New York.

EXPERTS

The financial statements of Consolidated Stores Corporation as of February 3, 1996 and January 28, 1995 and for each of the three fiscal years ended February 3, 1996, January 28, 1995 and January 29, 1994, respectively, included in this Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing.

The financial statements of Kay-Bee Center, Inc. as of December 31, 1995, 1994 and 1993 and for each of the three years in the period ended December 31, 1995 included in this Prospectus have been audited by KPMG Peat Marwick LLP, independent auditors, as indicated in its report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing.

AVAILABLE INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-3 under the Securities Act with respect to the securities offered hereby. This Prospectus does not contain all the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits thereto, copies of which are on file at the offices of the Commission and may be obtained upon payment of the fee prescribed by the Commission, or may be examined without charge at the offices of the Commission. Statements contained in this Prospectus or in any document incorporated in this Prospectus by reference as to the contents of any contract or other document referred to herein or therein are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement or such other document, each such statement being qualified in all respects by such reference.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files reports and other information with the Commission. Copies of reports, proxy and information statements and other information filed by the Company with the Commission may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judicial Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the following Regional Offices of the Commission: New York Regional Office, Seven World Trade Center, 13th Floor, New York, New York 10048 and Chicago Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Company's Common Stock is listed on the NYSE, and reports, proxy and information statements and other information concerning the Company may also be inspected at the offices of the NYSE located at 20 Broad Street, New York, New York 10005.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The following documents, filed with or furnished to the Commission, and the information included therein, are incorporated herein by reference and shall be deemed a part hereof: (i) the Company's Annual Report on Form 10-K for the fiscal year ending February 3, 1996 filed May 3, 1996, (ii) the Company's Current Report on Form 8-K filed April 9, 1996, (iii) the Company's Current Report on Form 8-K filed May 7, 1996, as amended by Form 8-K/A filed May 10, 1996, (iv) the Company's Current Report on Form 8-K filed May 13, 1996 and (v) all documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of this Offering. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company hereby undertakes to provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the written or oral request of any such person, a copy of any and all of the documents referred to above that have been incorporated in this Prospectus by reference, other than exhibits to such documents that are incorporated by reference unless such exhibits are specifically incorporated by reference into the information that this Prospectus incorporates. Requests should be directed to Michael J. Potter, Senior Vice President and Chief Financial Officer, 300 Phillipi Road, P.O. Box 28512, Columbus, Ohio 43228-0512, telephone (614) 278-6800. Persons requesting copies of exhibits that were not specifically incorporated by reference in such documents will be charged the costs of reproduction and mailing.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
KAY-BEE CENTER, INC. AND SUBSIDIARIES

INDEX TO PRO FORMA FINANCIAL INFORMATION AND HISTORICAL FINANCIAL STATEMENTS

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
KAY-BEE CENTER, INC. AND SUBSIDIARIES

PRO FORMA COMBINED FINANCIAL INFORMATION (UNAUDITED)

As of May 5, 1996, Consolidated Stores acquired Kay-Bee for a purchase price of approximately $315 million. The purchase price consisted of $215 million of cash and $100 million of Subordinated Notes. The proceeds from the Offering will be used to repay a portion of the borrowings incurred under the Revolving Credit Facility to finance the Acquisition.

The unaudited pro forma combined financial information gives effect to the Acquisition and the financing thereof, including the issuance of the Subordinated Notes and the borrowings under the Revolving Credit Facility, and the Offering and the application of the net proceeds therefrom as if they had occurred on January 29, 1995 for purposes of the unaudited pro forma combined statement of earnings and as of February 3, 1996 for purposes of the unaudited pro forma combined balance sheet. The pro forma adjustments that have been applied to the audited financial statements of Kay-Bee account for the Acquisition as a purchase.

The pro forma purchase price for the Acquisition was determined based on the book value as of December 31, 1995 of the Kay-Bee net assets acquired. The actual purchase price as of May 5, 1996 was higher based primarily on the increase in seasonal working capital at Kay-Bee for the period from January 1, 1996 to May 4, 1996. This increase in working capital and the borrowings that would be attributable thereto are not reflected in the unaudited pro forma combined financial information. Accordingly, the unaudited pro forma combined financial information reflects a lower purchase price and lower outstanding borrowings under the Revolving Credit Facility.

The unaudited pro forma combined financial information has been prepared on the basis of assumptions described in the notes thereto and includes assumptions relating to the allocation of the consideration paid for the assets and liabilities of Kay-Bee based on preliminary estimates of their fair value. The actual allocation of such consideration may differ from that reflected in the unaudited pro forma combined financial information after valuations and other procedures to be performed after the closing of the Acquisition have been completed. The estimated values of the assets and liabilities at the time of the Acquisition also could vary from the amounts as of December 31, 1995. The Company, however, does not expect that the effect of any differences will be material. In addition, the proceeds from the Offering, the interest rate on, and the amount of, borrowings under the Revolving Credit Facility and the fees and expenses with respect to the Acquisition and the Offering are assumed solely for the purpose of presenting the unaudited pro forma combined financial information set forth below. The actual proceeds from the Offering, the actual interest rate on, and the amount of, borrowings under the Revolving Credit Facility and actual fees and expenses may differ from the assumptions set forth below. In the opinion of management of the Company, all adjustments necessary to present fairly such unaudited pro forma combined financial information have been made based on the proposed terms and structure of the Acquisition.

This unaudited pro forma financial information is not necessarily indicative of what actual results would have been had the Acquisition occurred at the dates indicated nor do they purport to project the future financial position or the results of future operations of the Company.

This unaudited pro forma financial information should be read in conjunction with the accompanying notes and the audited financial statements, including the notes thereto, of the Company and Kay-Bee, respectively, included elsewhere in this Prospectus.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
KAY-BEE CENTER, INC. AND SUBSIDIARIES

PRO FORMA COMBINED STATEMENT OF EARNINGS (UNAUDITED)

FISCAL YEAR ENDED FEBRUARY 3, 1996

The pro forma combined statement of earnings data has been prepared by combining the consolidated statements of earnings of Consolidated Stores for the fiscal year ended February 3, 1996 with the consolidated statements of operations of Kay-Bee for the fiscal year ended December 31, 1995 and gives effect to the pro forma adjustments as described in the notes hereto.

	CONSOLIDATED STORES	KAY-BEE	ADJUSTMENTS	PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net sales	$1,512,299	$1,077,297	$ 8,125(2)	$2,597,721
Costs and expenses:				
Cost of sales	868,139	695,987(1)	4,763(2) 1,600(7) (20,287)(7)	1,550,202
Selling and administrative expenses	532,158	363,514	343(2) 2,581(5) (6,553)(6) 2,225(7) 20,287(7)	914,555
Restructuring and asset impairment charges	--	65,816	(65,816)(3)	--
Interest expense	8,036	5,335	4,310(4)	17,681
Other expense	1,706	--	--	1,706
Total costs and expenses	1,410,039	1,130,652	(56,547)	2,484,144
Earnings (loss) before income taxes and cumulative effect of accounting change	102,260	(53,355)	64,672	113,577
Income taxes (benefit)	37,854	(3,102)	7,271(8)	42,023
Earnings (loss) before cumulative effect of accounting change	64,406	(50,253)	57,401	71,554
Cumulative effect of change in accounting principle, net	--	711	(711)	--
Net earnings (loss)	$ 64,406	$ (50,964)	$ 58,112	$ 71,554
Earnings per common and common equivalent share of stock	$ 1.32			$ 1.33
Weighted average common and common equivalent shares outstanding	48,903		5,000(9)	53,903

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(1) Kay-Bee's historical cost of sales includes an inventory clearance markdown of $25.8 million that was taken during December 1995 in order to liquidate discontinued items and slower-moving merchandise. No pro forma adjustment has been taken for this markdown charge.

(2) Reflects (a) the elimination of the operating results of certain Kay-Bee stores that operated in fiscal 1995 but were not acquired by Consolidated Stores and (b) the inclusion of the operating results of certain Kay-Bee stores acquired by Consolidated Stores that operated in fiscal 1995 but were treated by Kay-Bee

as stores excluded from operations. The Company intends to keep these acquired Kay-Bee stores in operation after the Acquisition.

(3) Reflects the reversal of one-time non-recurring $65.8 million restructuring and asset impairment charges that were incurred by Kay-Bee in fiscal 1995. This charge included a $45.9 million charge to write-off the remaining balance of goodwill resulting from Melville's original acquisition of Kay-Bee, as well as to provide for (a) the estimated lease settlement costs for stores to be closed, (b) the cost to close and relocate one of Kay-Bee's warehouse/distribution centers, (c) severance costs for store closures and (d) the write-down of fixed assets. The remainder of the charge was a charge of $19.9 million to write-down the carrying value of long-lived assets in connection with the adoption of Statement of Financial Accounting Standards No. 121. See note 2 to the audited financial statements of Kay-Bee.

(4) Represents the additional interest expense for the fiscal year ended February 3, 1996 that would have been incurred had the Acquisition and the Offering taken place on January 29, 1995, assuming an interest rate of 6.3% per annum for borrowings under the Revolving Credit Facility and 7% per annum for the Subordinated Notes, net of the interest reduction resulting from the early extinguishment of the Company's 10 1/2% senior notes. A change of 1/4% in the interest rate payable on the outstanding balance under the Revolving Credit Facility would change annual interest expense by approximately $.4 million before the effect of income taxes.

(5) Reflects adjustments to depreciation and amortization based on the preliminary purchase accounting allocation related to property and equipment purchased in the Acquisition.

(6) Reflects the elimination of the amortization of goodwill and other intangible assets expensed during fiscal 1995 by Kay-Bee. The goodwill resulted from Melville's original acquisition of Kay-Bee and was written-off by Kay-Bee at the end of fiscal 1995. See note 2 to the audited financial statements of Kay-Bee and note 3 above.

(7) Reflects adjustments to conform the accounting practices of Kay-Bee to those of Consolidated Stores, as follows:

Increase in costs of sales to reflect additional freight expense that Kay-Bee had capitalized	$ 1,600
Increase in selling and administrative expense to reflect additional store supplies expense that Kay-Bee had capitalized	2,225
Reclassification of buying and warehousing costs from cost of sales to selling and administrative expenses	20,287

(8) Adjustment to reflect income tax effects assuming a combined state and federal statutory income tax rate of 37%.

(9) Adjustment to reflect the issuance of 5.0 million shares of Common Stock in this Offering.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
KAY-BEE CENTER, INC. AND SUBSIDIARIES

PRO FORMA COMBINED BALANCE SHEET (UNAUDITED)

AS OF FEBRUARY 3, 1996

The pro forma combined balance sheet as of February 3, 1996 has been prepared by combining the balance sheet of Consolidated Stores as of February 3, 1996 with the balance sheet of Kay-Bee as of December 31, 1995 and gives effect to the pro forma adjustments as described in the notes hereto.

	CONSOLIDATED STORES	KAY-BEE	NET ASSETS NOT ACQUIRED(1)	ADJUSTMENTS	PRO FORMA
			(IN THOUSANDS)		
ASSETS					
Current assets:					
Cash and cash equivalents...	$ 12,999	$ 16,523		$ 52,393(4)	$ 81,915
Accounts receivable.........	8,957	4,523			13,480
Due from parent.............		75,934	$ (75,934)		--
Inventories.................	388,346	198,765	1,364	(7,749)(2)	580,726
Prepaid expenses............	18,265	30,654	(13,857)	(4,341)(2)	30,721
Deferred income taxes.......	23,449	--			23,449
Total current assets.....	452,016	326,399	(88,427)	40,303	730,291
Property and equipment, net...	177,323	151,781		12,420(2)	341,524
Other assets..................	10,476	4,036	(206)	(3,830)(2)	10,476
Total assets...........	$639,815	$482,216	$ (88,633)	$ 48,893	$1,082,291
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable............	$129,223	$110,428			$ 239,651
Accrued liabilities.........	41,519	76,889	$ (11,226)	$ 7,241(3)	114,423
Income taxes................	17,416	--			17,416
Current maturities of long-term obligation............	10,000	263		(10,000)(4)	263
Total current liabilities............	198,158	187,580	(11,226)	(2,759)	371,753
Long-term obligations.........	25,000	7,908		75,000(4)	107,908
Capital lease obligations.....	--	3,714			3,714
Deferred income taxes.........	19,879	3,497	(3,497)		19,879
Other noncurrent liabilities.................	7,214	5,031	(5,031)		7,214
Stockholders' equity..........	389,564	274,486	(68,879)	(23,348)(5)	571,823
Total liabilities and stockholders' equity.............	$639,815	$482,216	$ (88,633)	$ 48,893	$1,082,291

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(1) Reflects the elimination of assets not acquired and liabilities not assumed pursuant to the Stock Purchase Agreement as follows:

Intercompany note receivable from Melville	$(75,934)
Inventory adjustments	1,364
Prepaid expenses (Kay-Bee deferred and prepaid income taxes)	(13,857)
Other assets	(206)
Accrued liabilities, such as taxes, benefits and remaining insurance reserves	11,226
Deferred income taxes	3,497
Other noncurrent liabilities	5,031
Equity of Melville in the assets of Kay-Bee not acquired	68,879

(2) Reflects pro forma adjustments including those to allocate purchase price and those to conform the accounting practices of Kay-Bee to those of Consolidated Stores, as follows:

Decrease in inventory resulting from elimination of capitalized freight costs and other	$ (7,749)
Decrease in prepaid expenses resulting from elimination of capitalized store supply costs	(4,341)
Increase in property and equipment	12,420
Decrease in other assets from elimination of favorable leases	(3,830)
Adjustments to net assets	$ (3,500)

The Acquisition will be accounted for as a purchase pursuant to APB Opinion No. 16, "Business Combinations." The purchase cost will be allocated to the assets and liabilities of Kay-Bee based on their fair values. Such allocations are subject to final determination based on valuations and other studies to be performed prior to the closing of the Acquisition. The final values may differ from those set forth below.

Purchase Cost:		
Cash	$ 97,607	
Subordinated Notes	100,000	
Estimated Acquisition fees and expenses	4,500	$202,107
Estimated Book Value:		
Melville's equity in Kay-Bee	$274,486	
Net assets not acquired	(68,879)	205,607
Purchase Cost Below Estimated Book Value		3,500
Adjustments to Net Assets (See above)		(3,500)
		$ -0-

(3) Reflects adjustments to accrued liabilities as follows:

Accrual for Acquisition fees and expenses	$ 4,500
Accrual for prepayment premium relating to senior notes, net of tax	1,890
Accrual for financing costs, net of tax	851
	$ 7,241

(4) Reflects the incurrence of indebtedness to finance the Acquisition and proceeds from the Offering:

Repayment of current portion of senior notes	$(10,000)
	========
Proceeds from borrowings under Revolving Credit Facility	132,607
Proceeds from issuance of Subordinated Notes	100,000
Repayment of senior notes	(25,000)
Net proceeds from issuance of Common Stock in this Offering at an assumed public offering price of $39.00 per share	(185,000)
Reclass to cash	52,393

	$ 75,000
	========

(5) Reflects the elimination of Kay-Bee equity and the issuance of Common Stock in the Offering as follows:

Elimination of Kay-Bee equity	$(205,607)
Net proceeds from issuance of Common Stock in the Offering at an assumed public offering price of $39.00 per share	185,000
Charge for financing costs and extraordinary charge relating to prepayment of senior notes, net of tax	(2,741)

	$ (23,348)
	=========

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 February 3, 1996, and January 28, 1995, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three fiscal years in the period ended February 3, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 February 3, 1996, and January 28, 1995, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 1996, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Dayton, Ohio
February 26, 1996
(March 25, 1996, as to Note on Proposed Acquisition)

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	AS OF FISCAL YEAR ENDED	
	FEBRUARY 3, 1996	JANUARY 28, 1995
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,999	$ 40,356
Accounts receivable	8,957	5,524
Inventories	388,346	302,132
Prepaid expenses	18,265	13,999
Deferred income taxes	23,449	19,262
Total current assets	452,016	381,273
Property and equipment -- net	177,323	161,500
Other assets	10,476	8,847
	$ 639,815	$ 551,620
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 129,223	$ 103,401
Accrued liabilities	41,519	38,289
Income taxes	17,416	18,982
Current maturities of long-term obligations	10,000	10,000
Total current liabilities	198,158	170,672
Long-term obligations	25,000	40,000
Deferred income taxes	19,879	17,114
Other noncurrent liabilities	7,214	8,600
Commitments and contingencies	--	--
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 47,775,958 shares and 46,866,303 shares, respectively	478	469
Non-voting common stock -- authorized 8,000,000 shares, $.01 par value; none issued	--	--
Additional paid-in capital	104,511	93,872
Retained earnings	285,105	220,699
Other adjustments	(530)	194
Total stockholders' equity	389,564	315,234
	$ 639,815	$ 551,620

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

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL YEAR		
	1995	1994	1993
Net sales	$1,512,299	$1,278,644	$1,055,291
Costs and expenses:			
Cost of sales	868,139	728,494	593,238
Selling and administrative expenses	532,158	451,411	386,116
Interest expense	8,036	7,238	5,812
Other expense (income) -- net	1,706	(532)	(1,591)
	1,410,039	1,186,611	983,575
Income before income taxes	102,260	92,033	71,716
Income taxes	37,854	36,813	28,689
Net income	$ 64,406	$ 55,220	$ 43,027
Earnings per common and common equivalent share of stock	$ 1.32	$ 1.15	$ .90

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		
	1995	1994	1993
Common stock:			
Balance at beginning of year	$ 469	$ 465	$ 462
Contribution to savings plan	1	1	--
Exercise of stock options	8	3	3
Balance at end of year	$ 478	$ 469	$ 465
Additional paid-in capital:			
Balance at beginning of year	$ 93,872	$ 89,817	$ 86,545
Exercise of stock options	9,243	2,655	2,608
Contribution to savings plan	1,396	1,400	664
Balance at end of year	$104,511	$ 93,872	$ 89,817
Retained earnings:			
Balance at beginning of year	$220,699	$165,479	$122,452
Net income for the year	64,406	55,220	43,027
Balance at end of year	$285,105	$220,699	$165,479
Other adjustments:			
Balance at beginning of year	$ 194	$ 2,774	$ --
Change in unrealized investment gain	296	(3,048)	4,188
Minimum pension liability adjustment	(1,020)	468	(1,414)
Balance at end of year	$ (530)	$ 194	$ 2,774

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 1995	FISCAL YEAR 1994	FISCAL YEAR 1993
Cash flows from operating activities:			
Net income	$ 64,406	$ 55,220	$ 43,027
Adjustment for noncash items included in net income:			
Depreciation and amortization	30,021	26,477	23,685
Deferred income taxes	(1,018)	256	(2,236)
Other	2,373	3,398	3,031
Change in assets and liabilities	(66,427)	(25,693)	(38,081)
Net cash provided by operating activities	29,355	59,658	29,426
Cash flows from investment activities:			
Capital expenditures	(48,091)	(41,558)	(45,994)
Investment in corporate owned life insurance	(6,870)	(4,781)	--
Other	6,476	(1,973)	478
Net cash used in investment activities	(48,485)	(48,312)	(45,516)
Cash flows from financing activities:			
Payments of senior notes	(15,000)	--	--
Increase in deferred credits	1,745	3,107	4,723
Proceeds from exercise of stock options	5,028	1,030	986
Net cash provided by (used in) financing activities	(8,227)	4,137	5,709
Increase (decrease) in cash and cash equivalents	$(27,357)	$ 15,483	$(10,381)

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's primary business is the retail sale of "close-out" merchandise by offering brand name merchandise at substantial discounts to traditional retail prices. At February 3, 1996, retail sales were conducted through 861 retail locations in 39 states.

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 effect 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

Retail inventories are stated at the lower of cost or market on the retail method. Other inventories are stated at the lower of cost (first-in, first-out method) or market.

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

Non-current 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 non-current liabilities and are recognized when earned as a reduction of the related inventory purchase cost.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 STANDARD CHANGE

In March 1995, the Financial Accounting Standards Board issued Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used, as well as long-lived assets and certain identifiable intangibles to be disposed of. The Company will be required to adopt the new standard in the first quarter of 1996. Based on preliminary evaluation of this Standard's requirements, the Company does not anticipate its effect to be material to the Company's consolidated financial position.

PROPOSED ACQUISITION

On March 25, 1996, the Company and Melville Corporation entered into a Purchase Agreement pursuant to which on May 5, 1996, the Company expects to acquire Kay-Bee for approximately $315 million, $215 million in cash and $100 million of Subordinated Notes, in a transaction that will be accounted for as a purchase. The transaction has been approved by the Board of Directors of each Company and is subject to regulatory review. Kay-Bee, directly or through its subsidiaries, will operate approximately 1,045 toy stores in 50 states. Store locations are primarily in enclosed shopping malls.

INVENTORIES

Inventories are comprised of the following (in thousands):

	FEBRUARY 3, 1996	JANUARY 28, 1995
Retail	$ 368,569	$ 287,287
Other	19,777	14,845
	$ 388,346	$ 302,132

INCOME TAXES

The provision for income taxes is comprised of the following (in thousands):

	FISCAL 1995	FISCAL 1994	FISCAL 1993
Federal -- Currently payable	$32,861	$31,815	$22,733
Deferred	(1,018)	(1,912)	387
State and Local	6,011	6,910	5,569
	$37,854	$36,813	$28,689

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

INCOME TAXES -- CONTINUED

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

	FISCAL 1995	FISCAL 1994	FISCAL 1993
Statutory federal income tax rate	35.0%	35.0%	35.0%
Effect of:			
State and local income taxes	3.8	4.9	5.1
Targeted jobs tax credit	(0.2)	(1.1)	(0.7)
Corporate owned life insurance investments	(2.2)	(0.5)	--
Other	0.6	1.7	0.6
Effective tax rate	37.0%	40.0%	40.0%

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. For financial reporting purposes deferred taxes are reflected without reduction for a valuation allowance. Components of the Company's deferred tax assets and liabilities are presented in the following table (in thousands).

	FEBRUARY 3, 1996	JANUARY 28, 1995
Deferred tax assets:		
Uniform inventory capitalization	$ 8,988	$ 7,139
Inventory valuation allowance	2,309	2,193
Deferred credits	1,293	192
Other (each less than 5% of total assets)	10,859	9,738
Total deferred tax assets	23,449	19,262
Deferred tax liabilities:		
Depreciation	15,144	14,325
Unrealized gain	880	760
Other	3,855	2,029
Total deferred tax liabilities	19,879	17,114
Net deferred tax assets	$ 3,570	$ 2,148

Net income taxes paid were $35,158,000, $29,613,000, and $19,288,000 in 1995, 1994, and 1993, respectively.

LONG-TERM OBLIGATIONS

SENIOR NOTES

The 10.5% senior notes are due in semi-annual principal payments commencing in February 1995, until maturity in August 2002. Subject to the provisions of the Note Purchase Agreement (Agreement) the Company may prepay all or part of the outstanding principal balance. The Agreement contains provisions specifying certain limitations on the Company's operations including the amount of future long-term obligations, investments, dividends and the maintenance of specific operating ratios. At February 3, 1996, $176,273,000 of retained earnings was available for dividends under provisions of the Agreement.

The fair value of the senior notes is estimated based on the current rates offered to the Company for debt with similar terms and remaining maturities. The estimated fair value of the senior notes at February 3, 1996,

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

LONG-TERM OBLIGATIONS -- CONTINUED
was $38,600,000 and the related carrying amount was $35,000,000. Maturities of senior notes during the next five years are as follows (in thousands):

1996	$10,000
1997	5,000
1998	5,000
1999	4,500
2000	6,000

CREDIT AGREEMENTS

The Company has a $90,000,000 unsecured revolving credit agreement through June 1, 1997, which is seasonally adjusted to $110,000,000 from August through November of the credit term. Outstanding borrowings, if any, at June 1, 1997, are payable one year thereafter. The funds available under this agreement may be used for working capital requirements and other general corporate purposes. The Company has the option to borrow at various interest rates and is required to pay a 1/8 of 1% commitment fee on the average daily unused funds. Included in the revolving credit agreement is a separate $50,000,000 letter of credit facility which is seasonally adjusted to $75,000,000 from May through July and expires June 1, 1996. The Company was contingently liable for outstanding letters of credit totaling $54,000,000 at February 3, 1996. Provisions of the revolving credit agreement include the maintenance of certain standard financial ratios similar to those described for senior notes. Additionally, $55,000,000 of uncommitted short-term credit facilities are available, subject to provisions of the revolving credit agreement, at February 3, 1996. No borrowings were outstanding under any such credit agreements.

Interest paid, including capitalized interest of $147,000, $788,000 and $486,000 in each of the respective previous three fiscal years, was $10,705,000 in 1995, $8,110,000 for 1994, and $6,314,000 in 1993.

DEFERRED CREDITS

The Company has commitments to certain vendors for future inventory purchases totaling approximately $66,800,000 at February 3, 1996. 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 PLAN

The Company has a defined benefit pension plan covering substantially all of its employees. Benefits 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. Contributions are intended to provide not only for benefits attributed to service to date but also for those anticipated to be earned in the future. The Company amended its pension plan to provide benefits only to employees hired on or before March 31, 1994.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

EMPLOYEE BENEFIT PLANS -- CONTINUED

The components of net periodic pension cost are comprised of the following (in thousands):

	FISCAL 1995	FISCAL 1994	FISCAL 1993
Service cost -- benefits earned in the period	$1,642	$1,671	$ 944
Interest cost on projected benefit obligation	811	689	592
Investment return on plan assets	(631)	(575)	(557)
Net amortization and deferral	303	529	96
Net periodic pension cost	$2,125	$2,314	$1,075
Assumptions used in each year of the actuarial computations were:			
Discount rate	6.5%	8.4%	7.2%
Rate of increase in compensation levels	5.5%	5.0%	5.0%
Expected long-term rate of return	9.0%	9.0%	9.0%

The following table sets forth the funded status of the Company's defined benefit plan (in thousands):

	FISCAL 1995	FISCAL 1994
Actuarial present value of:		
Vested benefit obligation	$10,857	$ 6,362
Non-vested benefits	2,091	1,352
Accumulated benefit obligation	$12,948	$ 7,714
Actuarial present value of projected benefit obligation	$18,572	$10,278
Plan assets at fair value, primarily cash equivalents, U.S. Government securities and obligations, and publicly traded stocks and mutual funds	8,910	6,848
Projected benefit obligation in excess of plan assets	(9,662)	(3,430)
Unrecognized prior service cost	(947)	(1,082)
Unrecognized net obligation at transition	239	252
Unrecognized net loss	9,454	4,006
Accrued pension cost	$ (916)	$ (254)

Provisions of SFAS No. 87 "Employers' Accounting for Pensions," require recognition of a minimum pension liability relating to certain unfunded pension obligations. At February 3, 1996, the minimum pension liability was $3,122,000.

SAVINGS PLAN

The Company has a savings plan with a 401(k) deferral feature for all eligible employees. Provisions of $1,650,000, $1,564,000, and $1,390,000 have been charged to operations in fiscal 1995, 1994, and 1993, 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 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,

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

LEASES -- CONTINUED
based on a percentage of store sales above a specified level. Additionally, leases generally provide options to extend the original terms for an additional two to twenty years. Minimum operating lease commitments as of February 3, 1996, are as follows (in thousands):

1996	$ 64,230
1997	52,317
1998	39,305
1999	28,154
2000	14,664
Subsequent to 2000	13,969
Total minimum operating lease payments	$212,639

Total rental expense consisted of the following (in thousands):

	FISCAL 1995	FISCAL 1994	FISCAL 1993
Buildings	$74,258	$62,555	$51,105
Equipment	4,823	4,695	2,807
	$79,081	$67,250	$53,912

STOCKHOLDERS' EQUITY

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 including the additional number of shares which would have been issuable upon exercise of stock options, assuming that the Company used the proceeds received to purchase additional shares at market value. The average number of common and common equivalent shares outstanding during fiscal 1995, 1994 and 1993 were 48,902,797, 48,077,162, and 47,976,396, respectively.

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 one one-hundredth 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, if the Company is involved in a merger or other business combination, at any time there is a 20% or more stockholder of the Company, 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.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

STOCKHOLDERS' EQUITY -- CONTINUED
PREFERRED STOCK

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

STOCK PLANS

The Company measures compensation cost for stock options issued to employees using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees". In October 1995 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which requires adoption no later than fiscal years beginning after December 15, 1995. Pursuant to the new standard, companies are encouraged, but not required, to adopt the fair value method of accounting for stock options and similar equity instruments. The Company has elected to continue measuring compensation cost in accordance with APB Opinion No. 25 and will adopt the additional disclosure requirements of Statement No. 123 in fiscal 1996.

STOCK OPTION AND INCENTIVE PLANS

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. However, upon an effective change in control of the Company, all options granted were exercisable.

During 1995, the Company adopted, subject to stockholder approval, the Consolidated Stores Corporation 1996 Performance Incentive Plan (Incentive Plan). The Incentive Plan provides for the issuance of stock options, restricted stock, performance units, stock equivalent units, and stock appreciation rights (SAR's). The annual maximum number of newly issued shares available for issuance under the Incentive Plan is 2,000,000 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 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 6,700,000 shares 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. Options granted under the Incentive Plan may be either nonqualified or incentive stock options and the exercise price is not less than the fair market value, as defined, of the underlying common stock on the date of award. The award price of an 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 become vested. During 1995 the Company granted, subject to stockholder approval of the Incentive Plan, 761,000 options with a exercise price of $20.00 per share.

The Company has a Director Stock Option Plan (DSOP), for non-employee directors, pursuant to which up to 500,000 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, beginning one year subsequent to grant.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

STOCK PLANS -- CONTINUED

The following table reflects transactions for the stock option, incentive and DSOP plans:

	SHARES	PRICE RANGE
Outstanding January 30, 1993	4,027,712	$ 2.12-15.38
Granted	708,600	$15.00-20.00
Canceled	107,160	$ 2.12-16.13
Exercised	283,945	$ 2.12-13.38
Outstanding January 29, 1994	4,345,207	$ 2.12-20.00
Granted	668,550	$12.00-18.75
Canceled	77,080	$ 2.50-18.75
Exercised	310,405	$ 2.12-16.13
Outstanding January 28, 1995	4,626,272	$ 2.12-20.00
Granted(1)	1,247,172	$16.25-22.00
Canceled	447,026	$ 3.63-19.87
Exercised	835,615	$ 2.12-19.87
Outstanding February 3, 1996	4,590,803	$ 2.12-22.00
Exercisable February 3, 1996	2,611,897	$ 2.12-20.00
Available for grant at February 3, 1996(1)	--	

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(1) Excludes shares subject to shareholder approval of the Incentive Plan.

RESTRICTED STOCK

The Company's Restricted Stock Plan (Plan) permits the granting of 500,000 shares of restricted stock awards to key employees, officers and directors. The shares are restricted as to the right of sale and other disposition until vested as determined by the Board of Directors. The Plan provides that on any event that results in a change in effective control of the Company, all awards of restricted stock would become vested as of the date of such change in effective control. The Plan terminates in 1997 or when sooner terminated by the Company's Board of Directors.

As of February 3, 1996, 220,000 restricted shares were outstanding with respect to restrictions which had not lapsed and shares available for grant totaled 173,072. Vesting of issued restricted shares occurs when, and in the noted amounts, the closing price per share of the Company's common stock on the New York Stock Exchange is as follows: 50,000 shares vest when the closing price is $30.00, 60,000 shares vest when the closing price is $35.00, and 110,000 shares vest when the closing price is at $40.00.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ADDITIONAL DATA

The following is a summary of certain financial data (in thousands):

	FEBRUARY 3, 1996	JANUARY 28, 1995
Other assets:		
Investment in equity securities -- at fair market value	$ 2,316	$ 1,900
Net cash surrender value of life insurance policies	6,005	4,190
Other	2,155	2,757
	$ 10,476	$ 8,847
Property and equipment -- at cost:		
Land	$ 7,700	$ 7,577
Buildings	64,119	62,097
Fixtures and equipment	233,278	203,745
Transportation equipment	6,962	6,437
	312,059	279,856
Construction-in-progress	9,689	--
	321,748	279,856
Less accumulated depreciation	144,425	118,356
	$ 177,323	$ 161,500
Accrued liabilities:		
Salaries and wages	$ 16,152	$ 11,303
Property, payroll and other taxes	24,120	24,279
Other	1,247	2,707
	$ 41,519	$ 38,289

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

	FISCAL 1995	FISCAL 1994	FISCAL 1993
Accounts receivable	$ (3,433)	$ (659)	$ (3,251)
Inventories	(86,214)	(49,252)	(50,037)
Prepaid expenses	(4,266)	(2,329)	(1,778)
Accounts payable	25,822	24,031	3,901
Accrued liabilities	3,230	6,657	1,924
Income taxes	(1,566)	(4,141)	11,160
	$(66,427)	$(25,693)	$(38,081)

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for fiscal 1995 and 1994 is presented below (in thousands except per share data):

	QUARTER				
	FIRST	SECOND	THIRD	FOURTH(1)	YEAR
Net sales:					
1995	$291,797	$325,114	$357,538	$537,850	$1,512,299
1994	242,278	272,813	310,108	453,445	1,278,644
Gross profit:					
1995	122,900	138,058	153,438	229,764	644,160
1994	101,682	117,655	135,624	195,189	550,150
Net income:					
1995	2,996	8,753	10,144	42,513	64,406
1994	2,384	6,709	8,075	38,052	55,220
Earnings per common and common equivalent share:					
1995	0.06	0.18	0.21	0.87	1.32
1994	0.05	0.14	0.17	0.79	1.15

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(1) The fourth quarter of 1995 is a 14-week period.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Melville Corporation:

We have audited the accompanying consolidated balance sheets of Kay-Bee Center, Inc. (a wholly-owned subsidiary of Melville Corporation) and subsidiaries as of December 31, 1995, 1994 and 1993, and the related consolidated statements of operations, shareholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kay-Bee Center, Inc. and subsidiaries as of December 31, 1995, 1994 and 1993, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" effective October 1, 1995 and changed its policy for accounting for the costs of internally developed software effective January 1, 1995. Also, as discussed in note 1 to the consolidated financial statements, the Company changed its method of determining the retail price index used to value inventory under the last-in, first-out method in 1993.

KPMG Peat Marwick LLP

Albany, New York
February 5, 1996, except as
to note 1(a), which is as
of February 22, 1996

KAY-BEE CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995, 1994 AND 1993

(IN THOUSANDS, EXCEPT SHARE DATA)

	1995	1994	1993
ASSETS			
Current assets:			
Cash	$ 16,523	$ 7,304	$ 6,118
Accounts receivable	4,523	3,790	3,877
Due from parent and other divisions	75,934	131,203	118,411
Inventories	198,765	201,982	179,977
Prepaid expenses and other current assets	30,654	26,052	28,592
Total current assets	326,399	370,331	336,975
Property, plant, equipment and leasehold improvements, at cost:			
Land	614	614	614
Buildings and improvements	18,987	17,044	8,235
Fixtures and equipment	135,451	125,147	115,682
Leasehold improvements	82,083	84,493	85,738
Property under capital leases	4,410	4,410	4,410
Total property, plant, equipment and leasehold improvements	241,545	231,708	214,679
Less accumulated depreciation and amortization	(89,764)	(89,644)	(87,912)
Net property, plant, equipment and leasehold improvements	151,781	142,064	126,767
Goodwill, net of accumulated amortization of $4,800 in 1994 and $3,257 in 1993	--	47,270	48,813
Deferred charges and other assets	4,036	8,281	11,912
Total assets	$482,216	$567,946	$524,467
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities:			
Accounts payable	$110,428	$108,995	$108,265
Accrued expenses	76,889	66,532	63,579
Accrued income taxes	--	17,499	2,942
Other current liabilities	263	239	218
Total current liabilities	187,580	193,265	175,004
Long-term debt, excluding current installments	7,908	8,066	8,210
Capital lease obligation, excluding current portion	3,714	3,819	3,914
Deferred income taxes	3,497	4,941	1,566
Other long-term liabilities	5,031	12,275	10,766
Total liabilities	207,730	222,366	199,460
Shareholder's equity:			
Common stock, no par value, 100 shares authorized, 10 shares issued and outstanding	10	10	10
Contributed capital	98,487	98,487	98,487
Retained earnings	175,989	247,083	226,510
Total shareholder's equity	274,486	345,580	325,007
Total liabilities and shareholder's equity	$482,216	$567,946	$524,467

See accompanying notes to consolidated financial statements.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993
(IN THOUSANDS)

	1995	1994	1993
Net sales	$1,077,297	$1,012,164	$919,055
Cost of goods sold, buying and warehousing costs	695,987	611,905	543,948
Gross profit	381,310	400,259	375,107
Store operating, selling, general and administrative expenses	339,678	314,373	292,772
Depreciation and amortization	23,836	24,030	23,345
Restructuring and asset impairment charges	65,816	--	--
Operating (loss) profit	(48,020)	61,856	58,990
Interest expense, net	5,335	2,081	260
(Loss) earnings before income taxes and cumulative effect of change in accounting principle	(53,355)	59,775	58,730
Income tax (benefit) expense	(3,102)	22,124	22,249
(Loss) earnings before cumulative effect of change in accounting principle	(50,253)	37,651	36,481
Cumulative effect of change in accounting principle, net	711	--	--
Net (loss) earnings	$ (50,964)	$ 37,651	$ 36,481

See accompanying notes to consolidated financial statements.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993
(IN THOUSANDS)

	COMMON STOCK	CONTRIBUTED CAPITAL	RETAINED EARNINGS	TOTAL
Balance as of December 31, 1992	$ 10	$98,487	$208,600	$307,097
Net earnings	--	--	36,481	36,481
Dividends paid to parent	--	--	(18,571)	(18,571)
Balance as of December 31, 1993	10	98,487	226,510	325,007
Net earnings	--	--	37,651	37,651
Dividends paid to parent	--	--	(17,078)	(17,078)
Balance as of December 31, 1994	10	98,487	247,083	345,580
Net loss	--	--	(50,964)	(50,964)
Dividends paid to parent	--	--	(20,130)	(20,130)
Balance as of December 31, 1995	$ 10	$98,487	$175,989	$274,486

See accompanying notes to consolidated financial statements.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
DECEMBER 31, 1995, 1994 AND 1993
(IN THOUSANDS)

	1995	1994	1993
Cash flows from operating activities:			
Net (loss) earnings	$(50,964)	$ 37,651	$ 36,481
Adjustment to reconcile net (loss) earnings to net cash (used in) provided by operating activities:			
Restructuring and asset impairment charges	65,816	--	--
Cumulative effect of change in accounting principle	711	--	--
Depreciation and amortization	23,836	24,030	23,345
Deferred income tax (benefit) expense	(1,185)	4,627	20,427
Loss (gain) on disposal of assets	--	1,270	(19)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(733)	87	(231)
Decrease (increase) in inventories	3,217	(22,005)	(14,669)
Increase in prepaid expenses and other current assets	(3,174)	(802)	(489)
(Increase) decrease in deferred charges and other assets	(40)	401	1,121
(Decrease) increase in accounts payable and accrued expenses	(12,201)	8,645	3,613
(Decrease) increase in accrued income taxes	(17,742)	14,557	(12,696)
Increase (decrease) in other liabilities	(11,239)	4,778	(21,464)
Net cash (used in) provided by operating activities	(3,698)	73,239	35,419
Cash flows from investing activities:			
Additions to property, plant, equipment and leasehold improvements	(45,974)	(37,003)	(33,661)
Net cash used in investing activities	(45,974)	(37,003)	(33,661)
Cash flows from financing activities:			
Dividends paid to parent	(20,130)	(17,078)	(18,571)
Repayment of long-term debt and capital leases	(239)	(218)	(277)
Increase (decrease) in book overdrafts	23,991	(4,962)	6,671
Decrease (increase) in due from parent and other divisions	55,269	(12,792)	10,352
Net cash provided by (used in) financing activities	58,891	(35,050)	(1,825)
Net increase (decrease) in cash	9,219	1,186	(67)
Cash at beginning of year	7,304	6,118	6,185
Cash at end of year	$ 16,523	$ 7,304	$ 6,118

See accompanying notes to consolidated financial statements.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995, 1994 AND 1993

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) DESCRIPTION OF BUSINESS

Kay-Bee Center, Inc. (the "Company") is a wholly-owned subsidiary of Melville Corporation (the "Parent" or "Melville"). The Company was incorporated in California on November 28, 1995. On February 22, 1996, Melville contributed all of the outstanding shares of common stock of another subsidiary, Southdale Kay-Bee Toys, Inc. ("Southdale"), to Kay-Bee Center, Inc. Southdale is a specialty retailer of toys throughout the United States and Puerto Rico, and operates both mall-based and free standing stores under the names Kay-Bee Toys and Toy Works.

The accompanying consolidated financial statements are presented as if Kay-Bee Center, Inc. had existed and had owned Southdale throughout 1993, 1994 and 1995. All intercompany accounts and transactions have been eliminated in consolidation.

(B) CASH

The Company's cash management program utilizes zero balance accounts. Accordingly, all book overdraft balances have been reclassified to current liabilities.

Cash payments for income taxes and interest for the years ended December 31 were as follows (in thousands):

	1995	1994	1993
Income taxes	$24,027	$2,171	$21,613
Interest (net of amounts capitalized)	$ 5,753	$1,820	$ 521

(C) INVENTORIES

Inventories are stated at the lower of cost or market. Inventories are determined primarily by the retail method valued on a last-in, first-out ("LIFO") basis.

(D) FIXED ASSETS

Fixed assets are stated at cost. Fixed assets under capital leases are stated at the present value of future minimum lease payments. Depreciation and amortization of property, plant, equipment and leasehold improvements is computed on a straight-line basis, generally over the estimated useful lives of the assets or, when applicable, the life of the lease, whichever is shorter. Buildings, machinery and equipment and furniture and fixtures are depreciated over estimated lives of 40 years, five to seven years and 10 years, respectively. Amortization of property under capital leases is computed on a straight-line basis over the life of the lease. The cost and accumulated depreciation of fully depreciated fixed assets are removed from the accounts.

Maintenance and repairs are charged directly to expense is incurred. Major renewals or replacements are capitalized after making necessary adjustments in the asset and accumulated depreciation accounts for the items renewed or replaced.

(E) IMPAIRMENT OF LONG-LIVED ASSETS

When changes in circumstances warrant measurement, impairment losses for store fixed assets are calculated by comparing projected store cash flows over the lease term to the asset carrying values.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(F) DEFERRED CHARGES

Deferred charges include beneficial leasehold costs which are being amortized on a straight-line basis, generally over the remaining life of the leasehold acquired. Amortization periods range from 6 to 10 years.

(G) GOODWILL

Through 1994, the excess of acquisition cost over the fair value of net assets acquired was being amortized on a straight-line basis over periods not to exceed forty years. During 1995, the Company wrote off all remaining goodwill balances in connection with the adoption of Statement of Financial Accounting Standards No. 121 (see Note 1(l)) and the 1995 restructuring charge (see note 2).

(H) ADVERTISING COSTS

Advertising costs are generally charged to operations in the year incurred and totaled $27.4 million in 1995, $19.6 million in 1994 and $22.4 million in 1993. Any vendor credits for cooperative advertising programs are recorded as a reduction of cost of sales.

(I) STORE OPENING AND CLOSING COSTS

New store opening costs are charged to expense as incurred. In the event a store is closed before its lease has expired, the total lease obligation, less sublease rental income, is provided for in the year of closing.

(J) INCOME TAXES

The Parent and its subsidiaries, including the Company, file a consolidated Federal income tax return and, where applicable, group state and local returns. The provision for Federal income taxes or Federal income tax benefit recorded by the Company represents the amount calculated on a separate return basis in accordance with the tax sharing agreement with the Parent. State income taxes represent actual amounts paid or payable by the Company.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(K) USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(L) ACCOUNTING CHANGES

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement No. 109"), the cumulative effect of which was immaterial to the consolidated financial statements and is therefore not presented separately.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

During 1993, the Company changed its method of determining retail price indices used in the valuation of LIFO inventories. The net earnings impact of this change on 1992 and prior years, individually and cumulatively, was not determinable. The change increased 1993 pre-tax earnings by $13.8 million.

Effective January 1, 1995, the Company changed its policy from capitalizing internally developed software costs to expensing them as incurred. The cumulative effect of this change was to write off the unamortized balance of capitalized software costs of $1.1 million during the first quarter of 1995.

Effective October 1, 1995, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("Statement No. 121") (see note 2).

(2) RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

On October 24, 1995, Melville announced a comprehensive restructuring plan that included the spin-off of the Company. In connection with the initiation of the plan, a pre-tax charge of $45.9 million was recorded to write-off the remaining balance of goodwill resulting from Melville's original acquisition of the Company, as well as to provide for estimated lease settlement costs for stores to be closed, the costs to relocate one of the Company's distribution centers, severance costs for store closures and the write-down of fixed assets. Total sales of stores to be closed were $7.0 million during 1995.

In 1995, the Company also recorded a charge of $19.9 million to write-down the carrying value of its long-lived assets in connection with the adoption of Statement No. 121.

The significant components of the restructuring and asset impairment charges recorded during 1995 were as follows (in thousands):

Lease obligations and asset write-downs for store closings	$10,617
Distribution center relocation	900
Goodwill write-off	34,330
Other exit costs	90
	45,937
Asset impairment charge in connection with the adoption of SFAS No. 121	19,879
	$65,816

The balance of the reserve for restructuring at December 31, 1995 was $4.7 million consisting principally of estimated lease settlement obligations.

In 1992, the Company also recorded a restructuring charge totaling $74.9 million. Results of stores planned to be closed in connection with the 1992 restructuring have been excluded from operations since the announcement date.

(3) INVENTORIES

Inventories at December 31 of each year consisted entirely of finished goods.

During 1994 and 1993, the liquidation of LIFO cost layers increased net income by approximately $2.5 million and $6.1 million, respectively.

Had the FIFO method been used, the carrying value of inventories valued on a LIFO basis would have increased $3.2 million at December 31, 1993. There was no difference between the carrying value of inventory under the FIFO and LIFO methods at December 31, 1994 and December 31, 1995.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(4) ACCRUED EXPENSES

Accrued expenses at December 31 consisted of the following (in thousands):

	1995	1994	1993
Taxes other than income taxes	$27,972	$22,501	$22,631
Advertising	12,472	10,768	5,919
Other	36,445	33,263	35,029
Total	$76,889	$66,532	$63,579

(5) LONG-TERM DEBT

Long-term debt at December 31 consisted of the following (in thousands):

	1995	1994	1993
Guaranteed first mortgage note, payable in monthly installments through April 2015 with interest at 9.25%	$8,066	$8,210	$8,341
Less current installments	158	144	131
	$7,908	$8,066	$8,210

The mortgage is secured by title to one of the Company's distribution centers with a net book value of $9,626,521 at December 31, 1995.

The aggregate long-term debt matures as follows: $158,000 in 1996, $174,000 in 1997, $191,000 in 1998, $209,000 in 1999, $230,000 in 2000 and $7,104,000 thereafter.

(6) LEASES

The Company leases retail stores and warehouse facilities over periods generally ranging from five to 25 years with options to renew such terms ranging from five to 15 years and require the Company to pay costs such as real estate taxes and common area maintenance.

At December 31, 1995, the present value of future payments under capital leases and minimum rental payments required under operating leases, excluding obligations for closed facilities, was as follows (in thousands):

	CAPITAL LEASES	OPERATING LEASES
1996	$ 472	$ 74,314
1997	472	66,780
1998	472	58,656
1999	472	48,173
2000	472	37,295
Thereafter	5,188	106,195
Total	7,548	$ 391,413
Less amount representing interest	3,729	
Present value of future capital lease payments	$3,819	

KAY-BEE CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Net rental expense for all operating leases for the years ended December 31, 1995, 1994 and 1993 is as follows (in thousands):

	1995	1994	1993
Minimum rentals	$85,830	$80,183	$75,637
Contingent rentals	3,280	3,626	2,833
Total rentals	$89,110	$83,809	$78,470

Contingent rentals are based on sales.

Property under capital leases at December 31 included (in thousands):

	1995	1994	1993
Warehouse and office facilities	$4,410	$4,410	$4,410
Less accumulated amortization	1,550	1,371	1,192
	$2,860	$3,039	$3,218

(7) INCOME TAXES

The components of income tax (benefit) expense for the years ended December 31 are as follows (in thousands):

	1995	1994	1993
Current:			
Federal	$(3,003)	$16,097	$ 1,424
State	1,086	1,400	398
	(1,917)	17,497	1,822
Deferred:			
Federal	(1,161)	3,985	16,476
State	(24)	642	3,951
	(1,185)	4,627	20,427
Total	$(3,102)	$22,124	$22,249

The effective income tax rate for 1995, 1994 and 1993 differed from the U.S. Federal income tax rate of 35 percent as a result of the following:

	1995	1994	1993
Actual effective income tax rate	(5.8)%	37.0%	37.9%
State income taxes, net of Federal benefit	(1.2)	(2.5)	(4.8)
Write-off of goodwill	(25.7)	--	--
Other	(2.3)	0.5	1.9
Statutory income tax rate	(35.0)%	35.0%	35.0%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Significant components of the Company's deferred tax assets and liabilities as of December 31 were as follows (in thousands):

	1995	1994	1993
Deferred tax assets:			
Inventory	$ 551	$ 2,443	$ 3,606
Restructuring reserves	4,017	4,933	8,676
Employee benefits	3,096	3,302	2,554
Tax amortizable intangibles	4,119	--	--
Other assets	1,658	588	1,236
Total deferred tax assets	13,441	11,266	16,072
Deferred tax liabilities:			
Property, plant, equipment and leasehold improvements	6,032	6,446	4,199
Other liabilities	1,584	1,867	2,203
Total deferred tax liabilities	7,616	8,313	6,402
Net deferred tax assets	$ 5,825	$ 2,953	$ 9,670

Current deferred tax assets of $9,322, $7,894 and $11,236 at December 31, 1995, 1994 and 1993, respectively, are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences at December 31, 1995.

(8) COMMITMENTS

At December 31, 1995, 1994 and 1993, the Company had outstanding letters of credit of approximately $28.4 million, $30.2 million and $15.4 million, respectively, which were used to guarantee certain foreign purchase contracts. The Company is not obligated under any formal or informal compensating balance agreements.

(9) RELATED PARTY TRANSACTIONS

(A) 401(K) PROFIT SHARING PLAN

The Parent has a qualified 401(k) Profit Sharing Plan available to full-time employees who meet the plan's eligibility requirements. This plan, which is a defined contribution plan, contains a profit sharing component with tax-deferred contributions to each employee based on certain performance criteria, and also permits employees to make contributions up to the maximum limits allowed by Internal Revenue Code Section 401(k). Under the 401(k) component, the Parent matches a portion of the employee's contribution under a predetermined formula based on the level of contribution and years of vesting. The Parent charges to the Company a portion of the expense related to these contributions based on the proportionate share of qualifying compensation at the Company to the total of all such compensation for all Melville plan participants.

Contributions to the plan by the Company for both profit sharing and matching of employee contributions were approximately $2.3 million, $2.0 million and $1.1 million for the years ended December 31, 1995, 1994 and 1993, respectively.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(B) EMPLOYEE STOCK OWNERSHIP PLAN

The Company's employees participate in the Parent's Employee Stock Ownership Plan ("ESOP"). The ESOP is a defined contribution plan for all employees meeting certain eligibility requirements. During 1989, the ESOP trust (the "Trust") borrowed $357.5 million at an interest rate of 8.6% through a 20 year loan guaranteed by the Parent. The Trust used the proceeds of the loan to purchase a new issue of convertible preference stock from the Parent.

The Parent charges compensation expense to the Company based upon total payments due to the ESOP. The charge allocated to the Company is based on the Company's proportionate share of qualifying compensation expense and does not reflect the manner in which the Parent funds these costs or the related tax benefits realized by the Parent. As a result of the Company's allocation from the Parent, compensation expense of approximately $3.5 million, $2.5 million and $2.8 million was recognized in the years ended December 31, 1995, 1994 and 1993, respectively.

(C) ADMINISTRATIVE COSTS

The Parent allocates various administrative expenses to the Company. Allocations are based on the Company's ratable share of expenses paid by the Parent on behalf of the Company for the combined programs. The total costs allocated to the Company for the years ended December 31, 1995, 1994 and 1993 were $4.2 million, $4.1 million and $5.4 million, respectively.

Melville Realty Company, Inc., a subsidiary of the Parent, guarantees the leases of certain stores operated by the Company and charges a fee for that service. In addition, Melville provides services associated with the acquisition and construction of new stores. The total amount paid by the Company to Melville and Melville Realty Company, Inc. was approximately $3.3 million in each of the years ended December 31, 1995, 1994 and 1993. Of these amounts, approximately $3.1 million, $2.3 million and $3.3 million was capitalized for the years ended December 31, 1995, 1994 and 1993, respectively. The non-capitalized portion of these charges is reflected in general and administrative expenses in each period.

(D) BORROWINGS

The weighted average interest rates on amounts due to and from the Parent and other divisions of Melville during 1995, 1994 and 1993 were 6.4%, 4.1% and 3.3%, respectively. The related net interest expense recorded by the Company relative to such borrowing was $4.3 million in 1995 and $0.9 million in 1994. In 1993, the Company recorded net interest income of $0.9 million.

(10) BUSINESS CONCENTRATIONS

The Company's single line of business is the sale of toys and related products to consumers. Over the past several years, significant consolidation has occurred among toy manufacturers. As a result, the number of toy manufacturers from whom the Company purchases merchandise has decreased, and the percentage of total purchases from certain manufacturers has increased. During 1995, the Company purchased 15.3% and 9.5% of total merchandise purchases from two manufacturers. During 1994, the Company purchased 13.6%, 10.6%, 5.9% and 5.4% of total merchandise purchases from four manufacturers. During 1993, these same four manufacturers accounted for 11.2%, 10.7%, 8.7% and 12.6% of total purchases. No other manufacturer accounts for more than five percent of total purchases in any year. The Company's inability to obtain merchandise from one or more of these significant suppliers could have an adverse effect on future performance.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

(IN THOUSANDS, EXCEPT SHARE DATA)

	MARCH 30, 1996
ASSETS	
Current assets:	
Cash	$ 9,999
Accounts receivable	3,947
Due from parent and other divisions	--
Inventories	234,019
Prepaid expenses and other current assets	39,466
Total current assets	287,431
Property, plant, equipment and leasehold improvements, at cost -- net	149,197
Deferred charges and other assets	3,200
Total assets	$ 439,828
LIABILITIES AND SHAREHOLDER'S EQUITY	
Current liabilities:	
Accounts payable	$ 78,760
Accrued expenses	36,348
Due to parent	44,952
Other current liabilities	269
Total current liabilities	160,329
Long-term debt and capital leases, excluding current installments	11,552
Other long-term liabilities	8,341
Total liabilities	180,222
Shareholder's equity:	
Common stock, no par value, 100 shares authorized, 10 shares issued and outstanding	10
Contributed capital	98,487
Retained earnings	161,109
Total shareholder's equity	259,606
Total liabilities and shareholder's equity	$ 439,828

See accompanying note to unaudited condensed consolidated financial statements.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS)

	QUARTER ENDED	
	MARCH 30, 1996	APRIL 1, 1995
Net sales	$ 177,627	$169,118
Cost of goods sold, buying and warehousing costs	114,753	113,363
Gross profit	62,874	55,755
Store operating, selling, general and administrative and depreciation and amortization expenses	86,255	80,999
Restructuring and asset impairment charges	1,167	--
Operating loss	(24,548)	(25,244)
Interest expense, net	546	(122)
Loss before income taxes and cumulative effect of change in accounting principle	(25,094)	(25,122)
Income tax benefit	(10,214)	(10,230)
Loss before cumulative effect of change in accounting principle	(14,880)	(14,892)
Cumulative effect of change in accounting principle	--	711
Net loss	$ (14,880)	$(15,603)

See accompanying note to unaudited condensed consolidated financial statements.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	QUARTER ENDED	
	MARCH 30, 1996	APRIL 1, 1995
Cash flows from operating activities:		
Net loss	$ (14,880)	$ (15,603)
Adjustment to reconcile net loss to net cash (used in) provided by operating activities:		
Restructuring charge and asset impairment charges	1,167	--
Cumulative effect of change in accounting principle	--	711
Depreciation and amortization	5,964	6,391
Deferred taxes and other	(234)	577
Change in operating assets and liabilities	(84,373)	(119,143)
Net cash used in operating activities	(92,356)	(127,067)
Cash flows from investing activities:		
Additions to property, plant, equipment and leasehold improvements	(4,195)	(3,153)
Net cash used in investing activities	(4,195)	(3,153)
Cash flows from financing activities:		
Dividends paid to parent	--	(4,624)
Repayment of long-term debt and capital leases	(36)	(33)
Decrease in book overdrafts	(30,823)	(12,817)
Decrease in due from parent and other divisions	120,886	149,572
Net cash provided by financing activities	90,027	132,098
Net increase (decrease) in cash	(6,524)	1,878
Cash at beginning of period	16,523	7,304
Cash at end of period	$ 9,999	$ 9,182

See accompanying note to unaudited condensed consolidated financial statements.

KAY-BEE CENTER, INC. AND SUBSIDIARIES

NOTE TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the Unaudited Condensed Consolidated Financial Statements of Kay-Bee Center, Inc. and Subsidiaries (Kay-Bee) include all adjustments, consisting of only normal recurring adjustments, necessary to present fairly Kay-Bee's financial position as of March 30, 1996 and the results of its operations for each of the fiscal quarters ended March 30, 1996 and April 1, 1995. Due to the seasonality of Kay-Bee's operations, the results of its operations for the interim period ended March 30, 1996 may not be indicative of total results for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations promulgated by the Securities and Exchange Commission. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes of Kay-Bee Center, Inc. and Subsidiaries for the year ended December 31, 1995 included in this Prospectus.

NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

TABLE OF CONTENTS

5,000,000 SHARES

[LOGO]

CONSOLIDATED STORES CORPORATION

COMMON STOCK

PROSPECTUS

MERRILL LYNCH & CO.

MONTGOMERY SECURITIES

MCDONALD & COMPANY SECURITIES, INC.

, 1996

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following is a list of the expenses to be incurred by the Company in connection with the Offering. Except for the Securities and Exchange Commission Filing Fee, all fees and expenses are estimated.

Securities and Exchange Commission Filing Fee	$ 67,690
NASD Filing Fee	20,130
NYSE Filing Fee	20,120
Accounting Fees and Expenses	145,000
Legal Fees and Expenses	200,000
Blue Sky Fees and Expenses	17,500
Printing Fees and Expenses	277,000
Miscellaneous Expenses	2,560
Total	$750,000

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145(a) of the General Corporation Law of the State of Delaware provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or on the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no cause to believe his conduct was unlawful.

Section 145(b) provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted under similar standards, except that no indemnification may be made in respect to any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine that despite the adjudication of liability, such person is fairly and reasonably entitled to be indemnified for such expenses that the court shall deem proper.

Section 145 further provides that to the extent a director or officer of a corporation has been successful in the defense of any action, suit or proceeding referred to in subsections (a) and (b) or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses actually and reasonably incurred by him in connection therewith; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the corporation may purchase and maintain insurance on behalf of a director or officer of the corporation against any liability asserted against him or incurred by him in any such capacity or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liabilities under such Section 145.

Section 102(b)(7) provides that a corporation in its original certificate of incorporation or an amendment thereto validly approved by stockholders may eliminate or limit personal liability of members of its board of directors or governing body for violations of a director's duty of care. However, no such provision may eliminate or limit the liability of a director for breaching his duty of loyalty, failing to act in good faith, engaging in intentional misconduct or knowingly violating a law, paying a dividend or approving a stock repurchase which was illegal, or obtaining an improper personal benefit. A provision of this type has no effect on the availability of equitable remedies, such as injunction or rescission, for breach of fiduciary duty. The Company's Restated Certificate of Incorporation contains such a provision.

The Company's Amended and Restated By-Laws generally provide that the Company shall indemnify its officers and directors to the fullest extent permitted by Delaware law against claims against them arising out of their actions as officers or directors of the Company. The By-Laws also provide that, to the fullest extent permitted by law, the Company's directors shall not be personally liable for monetary damages for breach of the directors' fiduciary duty of care to the Company or its stockholders. This provision does not eliminate the director's duty of care or eliminate a stockholder's right to seek equitable remedies such as an injunction or other forms of non-monetary relief.

The Company also maintains insurance for its officers and directors against claims arising out of their actions as officers and directors of the Company, whether or not the Company would have the power to indemnify such officers or directors for the claim under applicable law.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

EXHIBIT NO.	
1	Form of Purchase Agreement between the Company and Merrill Lynch, Pierce, Fenner and Smith Incorporated, Montgomery Securities and McDonald & Company Securities, Inc.
5	Opinion of Benesch, Friedlander, Coplan & Aronoff P.L.L., counsel for the Company
23.1	Consent of Deloitte & Touche LLP
23.2	Consent of KPMG Peat Marwick LLP
23.3	Consent of Benesch, Friedlander, Coplan & Aronoff P.L.L. (included as part of Exhibit 5)
24	Power of Attorney for William G. Kelley, Michael L. Glazer and Michael J. Potter (included in Part II of the Registration Statement (Reg. No. 333-2545))*
24.1	Power of Attorney for David T. Kollat*
24.2	Power of Attorney for Nathan P. Morton*
24.3	Power of Attorney for John L. Sisk*
24.4	Power of Attorney for Dennis B. Tishkoff*
24.5	Power of Attorney for William A. Wickham*
24.6	Power of Attorney for Sheldon M. Berman*

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* Filed previously.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or

(4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and each filing of an employee benefit plan annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) The undersigned Registrant hereby undertakes to deliver or cause to be delivered with the Prospectus, to each person to whom the Prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the Prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the Prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the Prospectus to provide such interim financial information.

(4) Insofar as indemnification for liabilities arising under the Securities Exchange Act of 1934 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Exchange Act of 1934 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedents, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, THE REGISTRANT CERTIFIES THAT IT HAS REASONABLE GROUNDS TO BELIEVE THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM S-3 AND HAS DULY CAUSED THIS AMENDMENT NO. 2 TO THE REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED ON THE 22ND DAY OF MAY, 1996.

CONSOLIDATED STORES CORPORATION

By: /s/ ALBERT J. BELL

ALBERT J. BELL
SENIOR VICE PRESIDENT AND SECRETARY

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, THIS AMENDMENT NO. 2 TO THE REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATE INDICATED.

SIGNATURE	TITLE	DATE
* WILLIAM G. KELLEY	Chairman of the Board and Chief Executive Officer	May 22, 1996
* MICHAEL L. GLAZER	President and Director	May 22, 1996
* MICHAEL J. POTTER	Senior Vice President and Chief Financial Officer	May 22, 1996
* DAVID T. KOLLAT	Director	May 22, 1996
* NATHAN P. MORTON	Director	May 22, 1996
* JOHN L. SISK	Director	May 22, 1996
* DENNIS B. TISHKOFF	Director	May 22, 1996
* WILLIAM A. WICKHAM	Director	May 22, 1996
* SHELDON M. BERMAN	Director	May 22, 1996

*By: /s/ JAMES E. EGGENSCHWILER

JAMES E. EGGENSCHWILER
ATTORNEY-IN-FACT

EXHIBIT INDEX

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23.2	Consent of KPMG Peat Marwick LLP	
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24.1	Power of Attorney for David T. Kollat*	
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24.6	Power of Attorney for Sheldon M. Berman*	

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* Filed previously.

EXHIBIT 1

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CONSOLIDATED STORES CORPORATION

(a Delaware corporation)

3,500,000 Shares of Common Stock

PURCHASE AGREEMENT

Dated: May __, 1996

==

CONSOLIDATED STORES CORPORATION

(a Delaware corporation)

3,500,000 Shares of Common Stock

(Par Value $.01 Per Share)

PURCHASE AGREEMENT

May __, 1996

MERRILL LYNCH & CO.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Montgomery Securities
McDonald & Company Securities, Inc.
as Representatives of the several Underwriters
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Ladies and Gentlemen:

Consolidated Stores Corporation, a Delaware corporation (the "Company"), confirms its agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and each of the other Underwriters named in Schedule A hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom Merrill Lynch, McDonald & Company Securities, Inc. and Montgomery Securities are acting as representatives (in such capacity, the "Representatives"), with respect to the issue and sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of the respective numbers of shares of Common Stock, par value $.01 per share, of the Company ("Common Stock") set forth in said Schedule A, and with respect to the grant by the Company to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any part of 525,000 additional shares of Common Stock to cover over-allotments, if any. The aforesaid 3,500,000 shares of Common Stock set forth in said Schedule A (the "Initial Securities") to be purchased by the Underwriters and all or any part of the

525,000 shares of Common Stock subject to the option described in Section 2(b) hereof (the "Option Securities") are hereinafter called, collectively, the "Securities."

The Company understands that the Underwriters propose to make a public offering of the Securities as soon as the Representatives deem advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-3 (No. 333-2545) covering the registration of the Securities under the Securities Act of 1933, as amended (the "1933 Act"), including the related preliminary prospectus or prospectuses. Promptly after execution and delivery of this Agreement, the Company will either (i) prepare and file a prospectus in accordance with the provisions of Rule 430A ("Rule 430A") of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations") and paragraph (b) of Rule 424 ("Rule 424(b)") of the 1933 Act Regulations or (ii) if the Company has elected to rely upon Rule 434 ("Rule 434") of the 1933 Act Regulations, prepare and file a term sheet (a "Term Sheet") in accordance with the provisions of Rule 434 and Rule 424(b). The information included in such prospectus or in such Term Sheet, as the case may be, that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement at the time it became effective (a) pursuant to paragraph (b) of Rule 430A is referred to as "Rule 430A Information" or (b) pursuant to paragraph (d) of Rule 434 is referred to as "Rule 434 Information." Each prospectus used before such registration statement became effective, and any prospectus that omitted, as applicable, the Rule 430A Information or the Rule 434 Information, that was used after such effectiveness and prior to the execution and delivery of this Agreement, is herein called a "preliminary prospectus." Such registration statement, including the exhibits thereto, schedules thereto, if any, and the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the 1933 Act, at the time it became effective and including the Rule 430A Information and the Rule 434 Information, as applicable, is herein called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations is herein referred to as the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the Rule 462(b) Registration Statement. The final prospectus, including the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the 1933 Act, in the form first furnished to the Underwriters for use in connection with the offering of the Securities is herein called the "Prospectus." If Rule 434 is relied on, the term "Prospectus" shall refer to the preliminary prospectus dated May 6, 1996 together with the Term Sheet and all references in this Agreement to the date of the Prospectus shall mean the date of the Term Sheet. For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the Prospectus or any Term Sheet or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

All references in this Agreement to financial statements and schedules and other information which is "contained," "included" or "stated" in the Registration Statement, any preliminary prospectus or the Prospectus (or other references of like import) shall be deemed to mean and include all such financial statements and schedules and other information which is incorporated by reference in the Registration Statement, any preliminary prospectus or the Prospectus, as the case may be; and all references in this Agreement to amendments or supplements to the Registration Statement, any preliminary prospectus or the Prospectus shall be deemed to mean and include the filing of any document under the Securities Exchange Act of 1934 (the "1934 Act") which is incorporated by reference in the Registration Statement, such preliminary prospectus or the Prospectus, as the case may be.

SECTION 1. REPRESENTATIONS AND WARRANTIES.

(a) Representations and Warranties by the Company. The Company represents and warrants to each Underwriter as of the date hereof, as of the Closing Time referred to in Section 2(c) hereof, and as of each Date of Delivery (if any) referred to in Section 2(b) hereof, and agrees with each Underwriter, as follows:

(i) COMPLIANCE WITH REGISTRATION REQUIREMENTS. The Company meets the requirements for use of Form S-3 under the 1933 Act. Each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with.

At the respective times the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendments thereto became effective and at the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), the Registration Statement, the Rule 462(b) Registration Statement and any amendments and supplements thereto complied and will comply in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither the Prospectus nor any amendments or supplements thereto, at the time the Prospectus or any such amendment or supplement was issued and at the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. If Rule 434 is used, the Company will comply with the requirements of Rule 434. The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or Prospectus made in reliance upon and in conformity with information furnished to the Company in writing by any Underwriter through Merrill Lynch expressly for use in the Registration Statement or Prospectus.

Each preliminary prospectus and the prospectus filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the 1933 Act, complied when so filed in all material respects with the 1933 Act Regulations and, if applicable, each preliminary prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T under the 1933 Act ("Regulation S-T").

(ii) INCORPORATED DOCUMENTS. The documents incorporated or deemed to be incorporated by reference in the Registration Statement and the Prospectus, at the time they were or hereafter are filed with the Commission, complied and will comply in all material respects with the requirements of the 1934 Act and the rules and regulations of the Commission thereunder (the "1934 Act Regulations"), and, when read together with the other information in the Prospectus, at the time the Registration Statement became effective, at the time the Prospectus was issued and at the Closing Time (and if any Option Securities are purchased, at the Date of Delivery), did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(iii) INDEPENDENT ACCOUNTANTS. The accountants who certified the financial statements and supporting schedules included in the Registration Statement for both the Company and Kay-Bee Center, Inc. and its subsidiaries (Kay-Bee Center, Inc. and its subsidiaries, collectively hereinafter referred to as "Kay-Bee") are each independent public accountants as required by the 1933 Act and the 1933 Act Regulations.

(iv) FINANCIAL STATEMENTS. The consolidated financial statements for each of the Company and Kay-Bee included in the Registration Statement and the Prospectus, together with the related notes thereto, present fairly the financial position of each of the Company and Kay-Bee, respectively, and their respective consolidated subsidiaries at the dates indicated and the statements of operations, stockholders' equity and cash flows of each of the Company and Kay-Bee and their respective consolidated subsidiaries for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved. The supporting schedules, if any, included in the Registration Statement present fairly in accordance with GAAP the information required to be stated therein, except with respect to (1) accounting changes disclosed in the notes to the Kay-Bee financial statements included in the Registration Statement and the Prospectus and (2) for the unaudited condensed financial statements of Kay-Bee, to the extent necessary to comply with the rules and regulations of the Commission. The selected financial data and the summary financial information included in the Prospectus present fairly the information shown therein and have been compiled on a basis consistent with that of the audited financial statements included in the Registration Statement. The pro forma combined financial statements and the related notes thereto included in the Registration Statement and the Prospectus present fairly the information shown therein, have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

(v) NO MATERIAL ADVERSE CHANGE IN BUSINESS. Since the respective dates as of which information is given in the Registration Statement and the Prospectus, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company or any of its subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company and its subsidiaries considered as one enterprise, and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(vi) GOOD STANDING OF THE COMPANY. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under this Agreement; and the Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

(vii) GOOD STANDING OF SUBSIDIARIES. Each subsidiary of the Company has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect. Except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each such subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and is owned by the

Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity; none of the outstanding shares of capital stock of any subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such subsidiary. The only material subsidiaries ("Material Subsidiaries") of the Company are the subsidiaries listed on Schedule C hereto.

(viii) CAPITALIZATION. The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus in the column entitled "Actual" under the caption "Capitalization" (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus or pursuant to the exercise of options referred to in the Prospectus). The shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; none of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any securityholder of the Company.

(ix) AUTHORIZATION OF AGREEMENT. This Agreement has been duly authorized, executed and delivered by the Company.

(x) AUTHORIZATION AND DESCRIPTION OF SECURITIES. The Securities have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement against payment of the consideration set forth herein, will be validly issued, fully paid and non-assessable; the Common Stock conforms to all statements relating thereto contained in the Prospectus and such description conforms to the rights set forth in the instruments defining the same; no holder of the Securities will be subject to personal liability by reason of being such a holder; and the issuance of the Securities is not subject to the preemptive or other similar rights of any securityholder of the Company.

(xi) ABSENCE OF DEFAULTS AND CONFLICTS. Neither the Company nor any of its subsidiaries is in violation of its charter or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any subsidiary is subject (collectively, "Agreements and Instruments") except for such defaults that would not result in a Material Adverse Effect; and the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein and in the Registration Statement (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectus under the caption "Use of Proceeds") and compliance by the Company with its obligations hereunder have been duly authorized by all necessary corporate action and do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any subsidiary pursuant to, the Agreements and Instruments (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not result in a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company or any subsidiary or any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company or any subsidiary or any of their assets, properties or operations. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company or any subsidiary.

(xii) ABSENCE OF LABOR DISPUTE. No labor dispute with the employees of the Company or any subsidiary exists or, to the knowledge of the Company, is imminent, and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its or any subsidiary's principal suppliers, manufacturers, customers or contractors, which, in either case, may reasonably be expected to result in a Material Adverse Effect.

(xiii) ABSENCE OF PROCEEDINGS. There is no action, suit, proceeding, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Company, threatened, against or affecting the Company or any subsidiary, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which might reasonably be expected to result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the properties or assets of the Company and its subsidiaries, taken as a whole, or the consummation of the transactions contemplated in this Agreement or the performance by the Company of its obligations hereunder; the aggregate of all pending legal or governmental proceedings to which the Company or any subsidiary is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, could not reasonably be expected to result in a Material Adverse Effect.

(xiv) ACCURACY OF EXHIBITS. There are no contracts or documents which are required to be described in the Registration Statement, the Prospectus or the documents incorporated by reference therein or to be filed as exhibits thereto which have not been so described and filed as required.

(xv) POSSESSION OF INTELLECTUAL PROPERTY. The Company and its subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them, and neither the Company nor any of its subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interest of the Company or any of its subsidiaries therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would result in a Material Adverse Effect.

(xvi) ABSENCE OF FURTHER REQUIREMENTS. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company of its obligations hereunder, in connection with the offering, issuance or sale of the Securities hereunder or the consummation of the transactions contemplated by this Agreement, except such as have been already obtained or as may be required under the 1933 Act, the 1933 Act Regulations or any applicable state securities laws.

(xvii) POSSESSION OF LICENSES AND PERMITS. The Company and its subsidiaries possess such permits, licenses, approvals, consents and other authorizations (collectively, "Governmental Licenses") issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them; the Company and its subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, have a Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not have a Material Adverse Effect; and neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a Material Adverse Effect.

(xviii) TITLE TO PROPERTY. The Company and its subsidiaries have good and marketable title to all real property owned by the Company and its subsidiaries and good title to all other properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except such as (a) are described in the Prospectus or (b) do not, singly or in the aggregate, materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company or any of its subsidiaries; and all of the leases and subleases material to the business of the Company and its subsidiaries, considered as one enterprise, and under which the Company or any of its subsidiaries holds properties described in the Prospectus, are in full force and effect, and neither the Company nor any subsidiary has any notice of any material claim of any sort that has been asserted by anyone adverse to the rights of the Company or any subsidiary under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease.

(xix) COMPLIANCE WITH CUBA ACT. The Company has complied with, and is and will be in compliance with, the provisions of that certain Florida act relating to disclosure of doing business with Cuba, codified as Section 517.075 of the Florida statutes, and the rules and regulations thereunder (collectively, the "Cuba Act") or is exempt therefrom.

(xx) ENVIRONMENTAL LAWS. Except as described in the Registration Statement and except as would not, singly, or in the aggregate, result in a Material Adverse Effect, (A) neither the Company nor any of its subsidiaries is in violation of any federal, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company and its subsidiaries have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company or any of its subsidiaries and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company or any of its subsidiaries relating to Hazardous Materials or of any Environmental Laws.

(xxi) STOCK PURCHASE AGREEMENT IN EFFECT. The Stock Purchase Agreement, dated as of March 25, 1996, between the Company and Melville Corporation (the "Stock Purchase Agreement") is in full force and effect, and the Company has performed all of its obligations thereunder required to be performed on or prior to the date hereof.

(xxii) COMPANY IS SOLVENT. On the closing date of the acquisition of Kay-Bee, May 4, 1996 (the "Acquisition") and immediately after such closing (after giving effect to the Acquisition), the Company was and remains Solvent. As used herein, the term "Solvent" means, with respect to the Company on a particular date, that on such date (A) the fair market value of the assets of the Company is greater than the total amount of liabilities (including contingent liabilities) of the Company, (B) the present fair salable value of the assets of the Company is greater than the amount that will be required to pay the probable liabilities of the Company on its debts as they become absolute and matured, (C) the Company is able to realize upon its assets and pay its debts and other liabilities, including contingent obligations, as they mature and (D) the Company does not have an unreasonably small capital.

(b) Officer's Certificates. Any certificate signed by any officer of the Company or any of its subsidiaries delivered to the Representatives or to counsel for the Underwriters shall be deemed a representation and warranty by the Company to each Underwriter as to the matters covered thereby.

SECTION 2. SALE AND DELIVERY TO UNDERWRITERS; CLOSING.

(a) Initial Securities. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, severally and not jointly, and each Underwriter, severally and not jointly, agrees to purchase from the Company, at the price per share set forth in Schedule B, the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter, plus any additional number of Initial Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) Option Securities. In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the Underwriters, severally and not jointly, to purchase up to an additional 525,000 shares of Common Stock at the price per share set forth in Schedule B, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time only for the purpose of covering over-allotments which may be made in connection with the offering and distribution of the Initial Securities upon notice by the Representatives to the Company setting forth the number of Option Securities as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Securities. Any such time and date of delivery (a "Date of Delivery") shall be determined by the Representatives, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the

Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the Option Securities, each of the Underwriters, acting severally and not jointly, will purchase that proportion of the total number of Option Securities then being purchased which the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter bears to the total number of Initial Securities, subject in each case to such adjustments as the Representatives in their discretion shall make to eliminate any sales or purchases of fractional shares.

(c) Payment. Payment of the purchase price for, and delivery of certificates for, the Initial Securities shall be made at the offices of Shearman & Sterling, 599 Lexington Avenue, New York, New York, or at such other place as shall be agreed upon by the Representatives and the Company, at 10:00 A.M. (Eastern time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by the Representatives and the Company (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the Option Securities are purchased by the Underwriters, payment of the purchase price for, and delivery of certificates for, such Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Representatives and the Company, on each Date of Delivery as specified in the notice from the Representatives to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the Representatives for the respective accounts of the Underwriters of certificates for the Securities to be purchased by them. It is understood that each Underwriter has authorized the Representatives, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial Securities and the Option Securities, if any, which it has agreed to purchase. Merrill Lynch, individually and not as representative of the Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Initial Securities or the Option Securities, if any, to be purchased by any Underwriter whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such Underwriter from its obligations hereunder.

(d) Denominations; Registration. Certificates for the Initial Securities and the Option Securities, if any, shall be in such denominations and registered in such names as the Representatives may request in writing at least two full business days before the Closing Time or the relevant Date of Delivery, as the case may be. The certificates for the Initial Securities and the Option Securities, if any, will be made available for examination and packaging by the Representatives in The City of New York not later than 10:00 A.M.

(Eastern time) on the business day prior to the Closing Time or the relevant Date of Delivery, as the case may be.

SECTION 3. COVENANTS OF THE COMPANY. The Company covenants with each Underwriter as follows:

(a) Compliance with Securities Regulations and Commission Requests. The Company, subject to Section 3(b), will comply with the requirements of Rule 430A or Rule 434, as applicable, and will notify the Representatives immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective, or any supplement to the Prospectus or any amended Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly effect the filings necessary pursuant to Rule 424(b) and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 424(b) was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(b) Filing of Amendments. The Company will give the Representatives notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)), any Term Sheet or any amendment, supplement or revision to either the prospectus included in the Registration Statement at the time it became effective or to the Prospectus, whether pursuant to the 1933 Act, the 1934 Act or otherwise, will furnish the Representatives with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which the Representatives or counsel for the Underwriters shall object.

(c) Delivery of Registration Statements. The Company has furnished or will deliver to the Representatives and counsel for the Underwriters, without charge, signed copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein and documents incorporated or deemed to be incorporated by reference therein) and signed copies of all consents and certificates of experts, and will also deliver to the Representatives, without charge, a conformed copy of the Registration Statement as originally filed and of each amendment thereto (without exhibits) for each of the

Underwriters. If applicable, the copies of the Registration Statement and each amendment thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(d) Delivery of Prospectuses. The Company has delivered to each Underwriter, without charge, as many copies of each preliminary prospectus as such Underwriter reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each Underwriter, without charge, during the period when the Prospectus is required to be delivered under the 1933 Act or the 1934 Act, such number of copies of the Prospectus (as amended or supplemented) as such Underwriter may reasonably request. If applicable, the Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) Continued Compliance with Securities Laws. The Company will comply with the 1933 Act and the 1933 Act Regulations and the 1934 Act and the 1934 Act Regulations so as to permit the completion of the distribution of the Securities as contemplated in this Agreement and in the Prospectus. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the Underwriters or for the Company, to amend the Registration Statement or amend or supplement the Prospectus in order that the Prospectus will not include any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement the Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Underwriters such number of copies of such amendment or supplement as the Underwriters may reasonably request.

(f) Blue Sky Qualifications. The Company will use its best efforts, in cooperation with the Underwriters, to qualify the Securities for offering and sale under the applicable securities laws of such states and other jurisdictions as the Representatives may designate and to maintain such qualifications in effect for a period of not less than one year from the later of the effective date of the Registration Statement and any Rule 462(b) Registration Statement; PROVIDED, HOWEVER, that the

Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject. In each jurisdiction in which the Securities have been so qualified, the Company will file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification in effect for a period of not less than one year from the effective date of the Registration Statement and any Rule 462(b) Registration Statement.

(g) Rule 158. The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(h) Use of Proceeds. The Company will use the net proceeds received by it from the sale of the Securities in the manner specified in the Prospectus under "Use of Proceeds."

(i) Listing. The Company will use its best efforts to effect the listing of the Securities on the New York Stock Exchange.

(j) Restriction on Sale of Securities. During a period of 150 days from the date of the Prospectus, the Company will not, without the prior written consent of Merrill Lynch, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Securities to be sold hereunder, (B) any shares of Common Stock issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectus, (C) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to the Consolidated Stores Corporation 1996 Performance Incentive Plan, Restricted Stock Plan or Director Stock Option Plan.

(k) Reporting Requirements. The Company, during the period when the Prospectus is required to be delivered under the 1933 Act or the 1934 Act will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the 1934 Act Regulations.

SECTION 4. PAYMENT OF EXPENSES.

(a) Expenses. The Company will pay all expenses incident to the performance of its obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the preparation, printing and delivery to the Underwriters of this Agreement, any Agreement among Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Securities, (iii) the preparation, issuance and delivery of the certificates for the Securities to the Underwriters, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Securities to the Underwriters, (iv) the fees and disbursements of the Company's counsel, accountants and other advisors, (v) the qualification of the Securities under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) the printing and delivery to the Underwriters of copies of each preliminary prospectus, any Term Sheets and of the Prospectus and any amendments or supplements thereto, (vii) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (viii) the fees and expenses of any transfer agent or registrar for the Securities, (ix) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the National Association of Securities Dealers, Inc. (the "NASD") of the terms of the sale of the Securities, and (x) the fees and expenses incurred in connection with the listing of the Securities on the New York Stock Exchange.

(b) Termination of Agreement. If this Agreement is terminated by the Representatives in accordance with the provisions of Section 5 or Section 9(a)(i) hereof, the Company shall reimburse the Underwriters for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the Underwriters.

SECTION 5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the several Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company contained in Section 1 hereof or in certificates of any officer of the Company or any subsidiary of the Company delivered pursuant to the provisions hereof, to the performance by the Company of its covenants and other obligations hereunder, and to the following further conditions:

(a) Effectiveness of Registration Statement. The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 424(b) (or a post-effective amendment providing such information shall have been filed and declared effective in accordance with the requirements of Rule 430A) or, if the Company has elected to rely upon Rule 434, a Term Sheet shall have been filed with the Commission in accordance with Rule 424(b).

(b) Opinions of Counsels for the Company. At Closing Time, the Representatives shall have received the favorable opinions, dated as of Closing Time, of Albert J. Bell, Esq., General Counsel of the Company, and of Benesch, Friedlander, Coplan & Aronoff P.L.L., counsel for the Company, each in form and substance satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letters for each of the other Underwriters, to the effect set forth in Exhibit A hereto and to such further effect as counsel to the Underwriters may reasonably request.

(c) Opinion of Counsel for Underwriters. At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of Shearman & Sterling, counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters with respect to the matters set forth in clauses A(i), (ii), (iv), (v) (solely as to preemptive or other similar rights arising by operation of law or under the charter or by-laws of the Company), (vii) through (ix), inclusive, (xii) (solely as to the information in the Prospectus under "Description of Capital Stock--Common Stock"), B(ii) and the penultimate paragraph of Exhibit AA. hereto. In giving such opinion such counsel may rely, as to all matters governed by the laws of jurisdictions other than the law of the State of New York, the federal law of the United States and the General Corporation Law of the State of Delaware, upon the opinions of counsel satisfactory to the Representatives. Such counsel may also state that, insofar as such opinion involves factual matters, they have relied, to the extent they deem proper, upon certificates of officers of the Company and its subsidiaries and certificates of public officials.

(d) Officers' Certificate. At Closing Time there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Representatives shall have received a certificate of the President or a Vice President of the Company and of the chief financial or chief accounting officer of the Company, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to Closing Time, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or are contemplated by the Commission.

(e) Accountants' Comfort Letters. At the time of the execution of this Agreement, the Representatives shall have received from each of Deloitte & Touche LLP and KPMG Peat Marwick LLP, a letter dated such date, in form and substance satisfactory to the Representatives, together with signed or reproduced copies of such letter for each of the other Underwriters containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(f) Bring-down Comfort Letter. At Closing Time the Representatives shall have received from each of Deloitte & Touche LLP and KPMG Peat Marwick LLP, a letter, dated as of Closing Time, to the effect that they reaffirm the statements made in their respective letters furnished pursuant to subsection (e) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time.

(g) Approval of Listing. At Closing Time the Securities shall have been approved for listing on the New York Stock Exchange, subject only to official notice of issuance.

(h) No Objection. The NASD shall not have raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(i) Lock-up Agreements. At the date of this Agreement, the Representatives shall have received an agreement substantially in the form of Exhibit B hereto signed by the persons listed on Schedule D hereto.

(j) Stock Purchase Agreement. At Closing Time the Stock Purchase Agreement shall be in full force and effect; the closing contemplated by the Stock Purchase Agreement shall have been consummated in accordance with the terms thereof in all material respects; and the Company shall have provided to the Representatives or their counsel copies of all closing documents delivered to the parties to the transactions contemplated by the Stock Purchase Agreement.

(k) Conditions to Purchase of Option Securities. In the event that the Underwriters exercise their option provided in Section 2(b) hereof to purchase all or any portion of the Option Securities, the representations and warranties of the Company contained herein and the statements in any certificates furnished by the Company or any subsidiary of the Company hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the Representatives shall have received:

(i) OFFICERS' CERTIFICATE. A certificate, dated such Date of Delivery, of the President or a Vice President of the Company and of the chief financial or chief accounting officer of the Company confirming that the certificate delivered at the Closing Time pursuant to Section 5(d) hereof remains true and correct as of such Date of Delivery.

(ii) OPINION OF COUNSEL FOR COMPANY. The favorable opinion of Benesch, Friedlander, Coplan & Aronoff P.L.L., counsel for the Company, in form and substance satisfactory to counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(b) hereof.

(iii) OPINION OF COUNSEL FOR UNDERWRITERS. The favorable opinion of Shearman & Sterling, counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(c) hereof.

(iv) BRING-DOWN COMFORT LETTER. A letter from each of Deloitte & Touche LLP and KPMG Peat Marwick LLP, in form and substance satisfactory to the Representatives and dated such Date of Delivery, substantially in the same form and substance as their respective letters furnished to the Representatives pursuant to Section 5(f) hereof, except that the "specified date" in each letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(l) Additional Documents. At Closing Time and at each Date of Delivery counsel for the Underwriters shall have been furnished with such documents and opinions as they may require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Securities as herein contemplated shall be satisfactory in form and substance to the Representatives and counsel for the Underwriters.

(m) Termination of Agreement. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of Option Securities on a Date of Delivery which is after the Closing Time, the obligations of the several Underwriters to purchase the relevant Option Securities, may be terminated by the Representatives by notice to the Company at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6 and 7 shall survive any such termination and remain in full force and effect.

SECTION 6. INDEMNIFICATION.

(a) Indemnification of Underwriters. The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 6(d) below) any such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by Merrill Lynch), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

PROVIDED, HOWEVER, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Merrill Lynch expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(b) Indemnification of Company, Directors and Officers. Each Underwriter severally agrees to indemnify and hold harmless the Company, its directors, each of its officers who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such Underwriter through Merrill Lynch expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(c) Actions Against Parties; Notification. Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a) above, counsel to the indemnified parties shall be selected by Merrill Lynch, and, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; PROVIDED, HOWEVER, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) Settlement Without Consent if Failure to Reimburse. If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

SECTION 7. CONTRIBUTION. If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other hand from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company on the one hand and the Underwriters on the other hand in connection with the offering of the Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Securities pursuant to this Agreement (before deducting expenses) received by the Company and the total underwriting discount received by the Underwriters, in each case as set forth on the cover of the Prospectus, or, if Rule 434 is used, the corresponding location on the Term Sheet, bear to the aggregate initial public offering price of the Securities as set forth on such cover.

The relative fault of the Company on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls an Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as such Underwriter, and each director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company. The Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial Securities set forth opposite their respective names in Schedule A hereto and not joint.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by or on behalf of the Company, and shall survive delivery of the Securities to the Underwriters.

SECTION 9. TERMINATION OF AGREEMENT.

(a) Termination; General. The Representatives may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Representatives, impracticable to market the Securities or to enforce contracts for the sale of the Securities, or (iii) if trading in any securities of the Company has been suspended or limited by the Commission or the New York Stock Exchange, or if trading generally on the American Stock Exchange or the New York Stock Exchange or in the Nasdaq National Market has been suspended or limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, the National Association of Securities Dealers, Inc. or any other governmental authority, or (iv) if a banking moratorium has been declared by either Federal or New York authorities.

(b) Liabilities. If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6 and 7 shall survive such termination and remain in full force and effect.

SECTION 10. DEFAULT BY ONE OR MORE OF THE UNDERWRITERS. If one or more of the Underwriters shall fail at Closing Time or a Date of Delivery to purchase the Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Representatives shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Representatives shall not have completed such arrangements within such 24-hour period, then:

(a) if the number of Defaulted Securities does not exceed 10% of the number of Securities to be purchased on such date, each of the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(b) if the number of Defaulted Securities exceeds 10% of the number of Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after the Closing Time, the obligation of the Underwriters to purchase and of the Company to sell the Option Securities to be purchased and sold on such Date of Delivery shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which is after the Closing Time, which does not result in a termination of the obligation of the Underwriters to purchase and the Company to sell the relevant Option Securities, as the case may be, either the Representatives or the Company shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. As used herein, the term "Underwriter" includes any person substituted for an Underwriter under this Section 10.

SECTION 11. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Representatives at North Tower, World Financial Center, New York, New York 10281-1201, attention of Joel Van Dusen; and notices to the Company shall be directed to it at 300 Phillipi Road, P.O. Box 28512, Columbus, Ohio 43228-0512, attention of Albert J. Bell, Esq.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon each of the Underwriters and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters and the Company and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Securities from any Underwriter shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. SPECIFIED TIMES OF DAY REFER TO NEW YORK CITY TIME.

SECTION 14. EFFECT OF HEADINGS. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

CONSOLIDATED STORES
CORPORATION

By

Title:

CONFIRMED AND ACCEPTED,
as of the date first above written:

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
MONTGOMERY SECURITIES
MCDONALD & COMPANY SECURITIES, INC.

By: MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By

Title:

For themselves and as Representatives of the other Underwriters named in Schedule A hereto.

SCHEDULE A

NAME OF UNDERWRITER	NUMBER OF INITIAL SECURITIES
Merrill Lynch, Pierce, Fenner & Smith Incorporated.............	
Montgomery Securities..	
McDonald & Company Securities, Inc.............................	
Total..	3,500,000

SCHEDULE B

CONSOLIDATED STORES CORPORATION

3,500,000 Shares of Common Stock
(Par Value $.01 Per Share)

1. The initial public offering price per share for the Securities, determined as provided in said Section 2, shall be $_________________.

2. The purchase price per share for the Securities to be paid by the several Underwriters shall be $________________, being an amount equal to the initial public offering price set forth above less $________________ per share; provided that the purchase price per share for any Option Securities purchased upon the exercise of the over-allotment option described in Section 2(b) shall be reduced by an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities.

SCHEDULE C

MATERIAL SUBSIDIARIES

COMPANY	JURISDICTION OF ORGANIZATION
T.R.O., INC	IL
CONSOLIDATED STORES CORPORATION	OH
C.S. ROSS COMPANY	OH
CSIC VENTURE, INC.	DE
INDUSTRIAL PRODUCTS OF NEW ENGLAND, INC.	ME
BARN ACQUISITION CORPORATION	DE
FASHION BARN, INC.	NY
MIDWESTERN HOME PRODUCTS, INC.	DE
TOOL AND SUPPLY COMPANY OF NEW ENGLAND, INC.	DE
SS INVESTMENTS CORPORATION	DE
CONSOLIDATED INTERNATIONAL EXPORT CORPORATION	BARBADOS
KB CONSOLIDATED, INC.	OH
KAY-BEE CENTER, INC.(1)	CA
SOUTHDALE KAY-BEE TOY, INC.(2)	MN
MALL OF AMERICA KAY-BEE TOY, INC.(3)	MN
CW KAY-BEE, INC.(4)	NY
K&K KAY-BEE, INC.(5)	VA
KAY-BEE TOY & HOBBY SHOPS, INC.(5)	MA

- --------

1 Subsidiary of KB Consolidated, Inc.
2 Subsidiary of Kay-Bee Center, Inc.
3 Subsidiary of Southdale Kay-Bee Toy, Inc.
4 Subsidiary of Mall of America Kay-Bee Toy, Inc.

SCHEDULE D

List of Persons and Entities
Subject to Lock-Up

William G. Kelley
Michael L. Glazer
Albert J. Bell
Michael J. Potter
James A. McGrady
Mark D. Shapiro
James E. Eggenschwiler
David T. Kollat
Nathan P. Morton
Dennis B. Tishkoff
William A. Wickham
Sheldon M. Berman
Donald A. Mierzwa
Kent A. W. Larson
C. Matthew Hunnell
Charles Freidenberg
Brad A. Waite
M. Steven Bromet

Exhibit A

FORMS OF OPINION OF COMPANY'S COUNSELS
TO BE DELIVERED PURSUANT TO
SECTION 5(b)

A. Form of Opinion of Benesch, Friedlander, Coplan & Aronoff, P.L.L.

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware.

(ii) The Company has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under the Purchase Agreement.

(iii) The Company is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

(iv) The Securities have been duly authorized for issuance and sale to the Underwriters pursuant to the Purchase Agreement and, when issued and delivered by the Company pursuant to the Purchase Agreement against payment of the consideration set forth in the Purchase Agreement, will be validly issued and fully paid and non-assessable and no holder of the Securities is or will be subject to personal liability by reason of being such a holder.

(v) The issuance of the Securities is not subject to the preemptive or other similar rights of any securityholder of the Company.

(vi) Each Material Subsidiary (listed on Schedule C to the Purchase Agreement) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect; except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each Material Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and, to the best of our knowledge and information, is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity; none of the outstanding shares of capital stock of any Material Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Material Subsidiary.

(vii) The Purchase Agreement has been duly authorized, executed and delivered by the Company.

(viii) We have been advised by the Staff of the Commission that the Registration Statement, including any Rule 462(b) Registration Statement, has been declared effective under the 1933 Act; any required filing of the Prospectus pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); and, to the best of our knowledge, no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or threatened by the Commission.

(ix) The Registration Statement, including any Rule 462(b) Registration Statement, the Rule 430A Information and the Rule 434 Information, as applicable, the Prospectus, excluding the documents incorporated by reference therein, and each amendment or supplement to the Registration Statement and Prospectus, excluding the documents incorporated by reference therein, as of their respective effective or issue dates (other than the financial statements and supporting schedules included therein or omitted therefrom, as to which we need express no opinion) appear on their face to have been appropriately responsive in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations.

(x) The documents incorporated by reference in the Prospectus (other than the financial statements and supporting schedules included therein or omitted therefrom, as to which we need express no opinion), when they were filed with the Commission, complied as to form in all material respects with the requirements of the 1934 Act and the rules and regulations of the Commission thereunder.

(xi) To the best of our knowledge, there is not pending or threatened any action, suit, proceeding, inquiry or investigation, to which the Company or any Material Subsidiary is a party, or to which the property of the Company or any Material Subsidiary is subject, before or brought by any court or governmental agency or body, domestic or foreign, which might reasonably be expected to result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in the Purchase Agreement or the performance by the Company of its obligations thereunder.

(xii) The information in the Prospectus under "Acquisition of Kay-Bee Center, Inc." and "Description of Capital Stock" and in the Registration Statement under Item 15, to the extent that it constitutes matters of law, summaries of legal matters, the

Company's charter and bylaws or legal proceedings, or legal conclusions, has been reviewed by us and is correct in all material respects.

(xiii) To the best of our knowledge, there are no statutes or regulations that are required to be described in the Prospectus that are not described as required.

(xiv) All descriptions in the Registration Statement of contracts and other documents to which the Company or its Material Subsidiaries are a party are accurate in all material respects; to the best of our knowledge, there are no franchises, contracts, indentures, mortgages, loan agreements, notes, leases or other instruments required to be described or referred to in the Registration Statement or to be filed as exhibits thereto other than those described or referred to therein or filed or incorporated by reference as exhibits thereto, and the descriptions thereof or references thereto are correct in all material respects.

(xv) To the best of our knowledge, neither the Company nor any Material Subsidiary is in violation of its charter or by-laws and no default by the Company or any Material Subsidiary exists in the due performance or observance of any material obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument that is described or referred to in the Registration Statement or the Prospectus or filed or incorporated by reference as an exhibit to the Registration Statement.

(xvi) No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency, domestic or foreign (other than under the 1933 Act and the 1933 Act Regulations, which have been obtained, or as may be required under the securities or blue sky laws of the various states, as to which we need express no opinion) is necessary or required in connection with the due authorization, execution and delivery of the Purchase Agreement or for the offering, issuance, sale or delivery of the Securities.

(xvii) The execution, delivery and performance of the Purchase Agreement and the consummation of the transactions contemplated in the Purchase Agreement and in the Registration Statement (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectus under the caption "Use of Proceeds") and compliance by the Company with its obligations under the Purchase Agreement do not and will not, whether with or without the giving of notice or lapse of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined in Section 1(a)(xi) of the Purchase Agreement) under or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any Material Subsidiary pursuant to any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or any other agreement or instrument, known to us, to which the Company or any Material Subsidiary is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any Material Subsidiary is subject (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not have a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company or any Material Subsidiary, or any applicable law, statute, rule, regulation, judgment, order, writ or decree, known to us, of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company or any Material Subsidiary or any of their respective properties, assets or operations.

(xviii) The Rights under the Company's Stockholder's Rights Agreement to which holders of the Securities will be entitled have been duly authorized and validly issued.

Nothing has come to our attention that would lead us to believe that the Registration Statement or any amendment thereto, including the Rule 430A Information and Rule 434 Information (if applicable) (except for financial statements and schedules and other financial data included or incorporated by reference therein or omitted therefrom, as to which we make no statement), at the time such Registration Statement or any such amendment became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus or any amendment or supplement thereto (except for financial statements and schedules and other financial data included or incorporated by reference therein or omitted therefrom, as to which we need make no statement), at the time the Prospectus was issued, at the time any such amended or supplemented prospectus was issued or at the Closing Time, included or includes an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may rely as to matters of fact (but not as to legal conclusions), to the extent they deem proper, on certificates of responsible officers of the Company and public officials. Such opinion shall not state that it is to be governed or qualified by, or that it is otherwise subject to, any treatise, written policy or other document relating to legal opinions, including, without limitation, the Legal Opinion Accord of the ABA Section of Business Law (1991).

To the extent such opinion involves matters governed by laws of jurisdictions other than the State of Ohio, the State of New York, the general corporation law of the State of Delaware and the federal laws of the United States of America, such counsel may assume that the laws of such jurisdictions are the same in substantive effect as the laws of the State of Ohio.

B. Form of Opinion of Albert Bell, General Counsel

(i) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus in the column entitled "Actual" under the caption "Capitalization" (except for subsequent issuances, if any, pursuant to the Purchase

Agreement or pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus or pursuant to the exercise of convertible securities or options referred to in the Prospectus); the shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; and none of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any securityholder of the Company.

(ii) The form of certificate used to evidence the Common Stock complies in all material respects with all applicable statutory requirements, with any applicable requirements of the charter and by-laws of the Company and the requirements of the New York Stock Exchange.

(iii) The information in the Prospectus under "Business--Properties" and "Business--Legal Proceedings", to the extent that it constitutes matters of law, summaries of legal matters, the Company's charter and bylaws or legal proceedings, or legal conclusions, has been reviewed by me and is correct in all material respects.

(iv) To the best of my knowledge, there are no statutes or regulations that are required to be described in the Prospectus that are not described as required.

In rendering such opinion, such counsel may rely as to matters of fact (but not as to legal conclusions), to the extent he deems proper, on certificates of responsible officers of the Company and public officials. Such opinion shall not state that it is to be governed or qualified by, or that it is otherwise subject to, any treatise, written policy or other document relating to legal opinions, including, without limitation, the Legal Opinion Accord of the ABA Section of Business Law (1991).

Exhibit B

May __, 1996

MERRILL LYNCH & CO.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
McDonald & Company Securities, Inc.
Montgomery Securities
as Representatives of the several
Underwriters to be named in the
within-mentioned Purchase Agreement
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Re: PROPOSED PUBLIC OFFERING BY CONSOLIDATED STORES CORPORATION

Dear Sirs:

The undersigned, a stockholder and an officer and/or director of Consolidated Stores Corporation, a Delaware corporation (the "Company"), understands that Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), McDonald & Company Securities, Inc. and Montgomery Securities propose to enter into a Purchase Agreement (the "Purchase Agreement") with the Company providing for the public offering of shares (the "Securities") of the Company's common stock, par value $.01 per share (the "Common Stock"). In recognition of the benefit that such an offering will confer upon the undersigned as a stockholder and an officer and/or director of the Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned agrees with each underwriter to be named in the Purchase Agreement that, during a period of 150 days from the date of the Purchase Agreement, the undersigned will not, without the prior written consent of Merrill Lynch, directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of the Company's Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock, whether now owned or hereafter acquired by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition, or file any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the sale of Common Stock pursuant to a tender offer for all of the outstanding shares of Common Stock, or (B) the sale or other transfer of the Common Stock in a merger or consolidation of the Company.

Very truly yours,

Signature: ----------------------

Print Name: ---------------------

Annex A

FORM OF ACCOUNTANTS' COMFORT LETTER PURSUANT TO SECTION 5(e)
[Deloitte & Touche LLP]

We are independent public accountants with respect to the Company within the meaning of the 1933 Act and the applicable published 1933 Act Regulations

(i) in our opinion, the audited financial statements included or incorporated by reference in the Registration Statement and the Prospectus comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the published rules and regulations thereunder;

(ii) on the basis of procedures (but not an examination in accordance with generally accepted auditing standards) consisting of a reading of the unaudited interim consolidated financial statements of the Company for the three-month periods ended May 4, 1996 and April 29, 1995, included in the Registration Statement and the Prospectus (the "three-month financials"), a reading of the minutes of all meetings of the stockholders and directors of the Company and its subsidiaries and the Audit and Compensation Committees of the Company's Board of Directors since February 4, 1996 and inquiries of certain officials of the Company and its subsidiaries responsible for financial and accounting matters, with respect to the three-month periods ended May 4, 1996 and April 29, 1995 and such other inquiries and procedures as may be specified in such letter, nothing came to our attention that caused us to believe that:

(a) the three-month financials included in the Registration Statement and the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the 1933 Act Regulations applicable to unaudited interim financial statements included in registration statements or any material modifications should be made to the three-month financials included in the Registration Statement and the Prospectus for them to be in conformity with generally accepted accounting principles;

(b) at a specified date not more than five days prior to the date of this Agreement, there was any change in the Capital Stock of the Company and its subsidiaries or any decrease in the consolidated net current assets or stockholders' equity of the Company and its subsidiaries or any increase in the long-term debt of the Company and its subsidiaries, in each case as compared with amounts shown in the latest balance sheet included in the Registration

Statement, except in each case for changes, decreases or increases that the Registration Statement discloses have occurred or may occur;

(c) for the period from May 4, 1996 to a specified date not more than five days prior to the date of this Agreement, there was any decrease in consolidated net sales, total or per share amounts of income before extraordinary items or of net income in each case as compared with the comparable period in the preceding year, except in each case for any decreases that the Registration Statement discloses have occurred or may occur;

(iii) based upon the procedures set forth in clause (ii) above and a reading of the Selected Historical Financial Data included in the Registration Statement and a reading of the financial statements from which such data were derived, nothing came to our attention that caused us to believe that the Selected Historical Financial Data included in the Registration Statement do not comply as to form in all material respects with the disclosure requirements of Item 301 of Regulation S-K of the 1933 Act, that the amounts included in the Selected Historical Financial Data are not in agreement with the corresponding amounts in the audited consolidated financial statements for the respective periods or that the financial statements not included in the Registration Statement from which certain of such data were derived are not in conformity with generally accepted accounting principles;

(iv) we have compared the information in the Registration Statement under selected captions with the disclosure requirements of Regulation S-K of the 1933 Act and on the basis of limited procedures specified herein, nothing came to our attention that caused us to believe that this information does not comply as to form in all material respects with the disclosure requirements of Items 302, 402 and 503(d), respectively, of Regulation S-K;

(v) based upon the procedures set forth in clause (ii) above, a reading of the unaudited financial statements of the Company for [the period] that have not been included in the Registration Statement. Nothing came to our attention that caused us to believe that the unaudited amounts for the [most recent period] do not agree with the amounts set forth in the unaudited consolidated financial statements for those periods or that such unaudited amounts were not determined on a basis substantially consistent with that of the corresponding amounts in the audited consolidated financial statements;

(vi) we are unable to and do not express any opinion on the Pro Forma Combined Financial Statements (the "Pro Forma Statement") included in the Registration Statement or on the pro forma adjustments applied to the historical amounts included in the Pro Forma Statement; however, for purposes of this letter we have:

(A) read the Pro Forma Statement;

(B) performed an audit of the financial statements to which the pro forma adjustments were applied;

(C) made inquiries of certain officials of the Company who have responsibility for financial and accounting matters about the basis for their determination of the pro forma adjustments and whether the Pro Forma Statement complies as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X; and

(D) proved the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the Pro Forma Statement; and

on the basis of such procedures and such other inquiries and procedures as specified herein, nothing came to our attention that caused us to believe that the Pro Forma Statement included in the Registration Statement does not comply as to form in all material respects with the applicable requirements of Rule 11-02 of Regulation S-X or that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements; and

(vii) in addition to the procedures referred to in clause (ii) above, we have performed other procedures, not constituting an audit, with respect to certain amounts, percentages, numerical data and financial information appearing in the Registration Statement, which are specified herein, and have compared certain of such items with, and have found such items to be in agreement with, the accounting and financial records of the Company.

Annex B

FORM OF ACCOUNTANTS' COMFORT LETTER PURSUANT TO SECTION 5(e)
[KPMG Peat Marwick LLP]

We are independent public accountants with respect to Kay-Bee Center, Inc. ("Kay-Bee") within the meaning of the 1933 Act and the applicable published 1933 Act Regulations

(i) in our opinion, the audited financial statements and the related financial statement schedules of Kay-Bee included or incorporated by reference in the Registration Statement and the Prospectus comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the published rules and regulations thereunder;

(ii) on the basis of procedures (but not an examination in accordance with generally accepted auditing standards) consisting of a reading of the unaudited interim consolidated financial statements of Kay-Bee for the three-month periods ended March 31, 1996 and March 31, 1995, included or incorporated by reference in the Registration Statement and the Prospectus (the "10-Q Financials"), a reading of the minutes of all meetings of the stockholders and directors of Kay-Bee and its subsidiaries since March 31, 1996, inquiries of certain officials of Kay-Bee and its subsidiaries responsible for financial and accounting matters, a review of interim financial information in accordance with standards established by the American Institute of Certified Public Accountants in Statement on Auditing Standards No. 71, Interim Financial Information ("SAS 71"), with respect to the three-month periods ended March 31, 1996 and March 31, 1995 and such other inquiries and procedures as may be specified in such letter, nothing came to our attention that caused us to believe that:

(a) the 10-Q Financials included in the Registration Statement and the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the 1934 Act and the 1934 Act Regulations applicable to unaudited interim financial statements included in Form 10-Q or any material modifications should be made to the 10-Q Financials included in the Registration Statement and the Prospectus for them to be in conformity with generally accepted accounting principles;

(b) at April 30, 1996 and at May 4, 1996, there was any change in the Capital Stock of Kay-Bee and its subsidiaries or any decrease in the consolidated net current assets or stockholders' equity of Kay-Bee and its subsidiaries or any increase in the long-term debt of Kay-Bee and its subsidiaries, in each case as compared with amounts shown in the latest balance sheet included in the Registration Statement, except in each case for changes, decreases or increases that the Registration Statement discloses have occurred or may occur; or

(c) for the period from March 31, 1996 to April 30, 1996 and for the period from April 30, 1996 to May 4, 1996, there was any decrease in consolidated net sales, total or per share amounts of income before extraordinary items or of net income in each case as compared with the comparable period in the preceding year, except in each case for any decreases that the Registration Statement discloses have occurred or may occur;

(iii) based upon the procedures set forth in clause (ii) above and a reading of the Selected Historical Financial Data included in the Registration Statement and a reading of the financial statements from which such data were derived, nothing came to our attention that caused us to believe that the Selected Historical Financial Data included in the Registration Statement do not comply as to form in all material respects with the disclosure requirements of Item 301 of Regulation S-K of the 1933 Act, that the amounts included in the Selected Historical Financial Data are not in agreement with the corresponding amounts in the audited consolidated financial statements for the respective periods or that the financial statements not included in the Registration Statement from which certain of such data were derived are not in conformity with generally accepted accounting principles;

(iv) we have compared the information in the Registration Statement under selected captions with the disclosure requirements of Regulation S-K of the 1933 Act and on the basis of limited procedures specified herein, nothing came to our attention that caused us to believe that this information does not comply as to form in all material respects with the disclosure requirements of Items 302, 402 and 503(d), respectively, of Regulation S-K; and

[(v) based upon the procedures set forth in clause (ii) above, a reading of the unaudited financial statements of the Company for [the most recent period] that have not been included in the Registration Statement and a review of such financial statements in accordance with SAS 71, nothing came to our attention that caused us to believe that the unaudited amounts for __________ [the most recent period] do not agree with the amounts set forth in the unaudited consolidated financial statements for those periods or that such unaudited amounts were not determined on a basis substantially consistent with that of the corresponding amounts in the audited consolidated financial statements.]

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PURCHASE AGREEMENT

EXHIBIT 5

May 22, 1996

Board of Directors
Consolidated Stores Corporation
300 Phillipi Road
P.O. Box 28512
Columbus, Ohio 43228-0512

Re: Consolidated Stores Corporation Registration Statement on Form S-3

Gentlemen:

It is our understanding that Consolidated Stores Corporation, a Delaware corporation (the "Company"), intends to file with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, a Registration Statement on Form S-3 (Registration Statement No. 333-2545) (the "Registration Statement"), which Registration Statement relates to a proposed public offering of 5,750,000 shares of common stock, par value $.01 per share, of the Company (the "Shares") (including 750,000 Shares subject to an underwriters' over-allotment option), to be issued pursuant to the terms of a purchase agreement to be executed by the Company, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Montgomery Securities and McDonald & Company Securities, Inc. as representatives of the other underwriters named in Schedule A thereto (the "Purchase Agreement").

You have requested our opinion in connection with the Company's filing of the Registration Statement. In this regard, we have examined and relied on originals or copies, certified or otherwise identified to our satisfaction as being true copies, of all such records of the Company, all such agreements, certificates of officers of the Company and others, and such other documents, certificates and corporate or other records as we have deemed necessary as a basis for the opinion expressed in this letter including, without limitation, the Purchase Agreement, the Company's Certificate of Incorporation and the Registration Statement.

In our examination, we have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as certified or photostatic copies. As to facts material to the opinions expressed in this letter, we have relied on statements and certificates of officers of the Company and of state authorities.

We have investigated such questions of law for the purpose of rendering the opinion in this letter as we have deemed necessary. We express no opinion in this letter concerning any law other than the General Corporation Law of the State of Delaware.

The opinion expressed herein assumes that there is no change in the facts, circumstances and law in effect on the date of this opinion, particularly as they relate to corporate authority and the Company's good standing under Delaware law.

On the basis of and in reliance on the foregoing, we are of the opinion that the Shares, when sold pursuant to the Purchase Agreement will be validly issued, fully paid and nonassessable.

The opinions in this letter are rendered to the Company in connection with the filing of the Registration Statement. We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to being named in the Registration Statement under the heading "Legal Matters" as counsel to the Company.

Very truly yours,

BENESCH, FRIEDLANDER,

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 2 to Registration Statement No. 333-2545 of Consolidated Stores Corporation of our report dated February 26, 1996 (March 25, 1996 as to Note on Proposed Acquisition), appearing in the Prospectus, which is part of this Registration Statement and to the reference to us under the headings "Selected Historical Financial Data" and "Experts" in such Prospectus.

DELOITTE & TOUCHE LLP

Dayton, Ohio

May 17, 1996

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

To the Board of Directors
Melville Corporation:

We consent to the use in this Amendment No. 2 to the Registration Statement of Consolidated Stores Corporation on Form S-3 (No. 333-2545) of our report on the consolidated financial statements of Kay-Bee Center, Inc. and subsidiaries as of December 31, 1995, 1994 and 1993, and for each of the years in the three-year period ended December 31, 1995, and to the references to our firm under the headings "Selected Historical Financial Data" and "Experts" in the prospectus included in the Registration Statement.

KPMG Peat Marwick LLP

Albany, New York

May 21, 1996