

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT FILED PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 4, 1996

Commission file number 1-8897

CONSOLIDATED STORES CORPORATION

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

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

The number of shares of Common Stock \$.01 par value per share, outstanding as of June 10, 1996, was 53,298,704 and there were no shares of Non-voting Common Stock, \$.01 par value per share outstanding at that date.

FORM 10-Q

CONSOLIDATED STORES CORPORATION
QUARTERLY REPORT ON FORM 10-Q

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

	May 4, 1996	February 3, 1996*
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ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 39,504	\$ 12,999
Restricted cash	214,515	--
Accounts receivable	7,885	8,957
Inventories	444,515	388,346
Prepaid expenses and deferred income taxes	48,473	41,714
Total current assets	754,892	452,016
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Property and equipment - net	180,384	177,323
Other assets	21,903	10,476
	\$ 957,179	\$ 639,815
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 131,774	\$ 129,223
Accrued liabilities	37,942	41,519
Income taxes	8,184	17,416
Current maturities of long-term obligations	10,000	10,000
Total current liabilities	187,900	198,158
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Long-term obligations	345,000	25,000
Deferred income taxes and other noncurrent liabilities	26,406	27,093
Stockholders' equity:		
Preferred stock - authorized 2,000,000 shares, \$.01 par value; none issued	--	--
Common stock - authorized 90,000,000 shares, \$.01 par value; issued 48,075,276 and 47,775,958 shares respectively	481	478
Common stock - authorized 8,000,000 shares, \$.01 par value; none issued	--	--
Additional paid-in-capital	108,714	104,511
Retained earnings	288,711	285,105
Other adjustments	(33)	(530)
Total stockholders' equity	397,873	389,564
	\$ 957,179	\$ 639,815
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* Condensed from audited financial statements

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

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

	Thirteen weeks ended	
	May 4, 1996	April 29, 1995
Net sales	\$ 343,229	\$ 291,797
Cost and expenses:		
Cost of sales	197,802	168,897
Selling and administrative expenses	138,059	116,923
Interest expense	1,886	1,308
Other - net	(242)	(163)
	337,505	286,965
Income before income taxes	5,724	4,832
Income taxes	2,118	1,836
Net income	\$ 3,606	\$ 2,996
Income per common and common equivalent share	\$.07	\$.06
Weighted average common and common equivalent shares outstanding	49,826	48,482

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

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

	Thirteen weeks ended	
	May 4, 1996	April 29, 1995
<hr/>		
Cash provided by (used for) operations:		
Net income	\$ 3,606	\$ 2,996
Items not effecting cash:		
Depreciation and amortization	8,164	6,792
Deferred income taxes	(740)	1,204
Other	1,825	1,836
Change in assets and liabilities	(71,454)	(63,641)
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Net cash used for operations	(58,599)	(50,813)
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Cash provided by (used for) investment activities:		
Capital expenditures	(11,375)	(6,398)
Other	508	596
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Net cash used for investment activities	(10,867)	(5,802)
<hr/>		
Cash provided by (used for) financing activities:		
Proceeds from credit agreements	320,000	32,695
Payment of debt issue expenses	(11,388)	--
Proceeds from exercise of stock options	1,234	1,427
Payment of long-term obligations	--	(5,000)
Other	640	--
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Net cash provided by financing activities	310,486	29,122
<hr/>		
Increase (decrease) in cash and cash equivalents and restricted cash	\$ 241,020	\$(27,493)
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The accompanying notes are an integral part of these condensed financial statements.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated balance sheet at May 4, 1996, and the condensed consolidated statements of earnings and statements of cash flows for the thirteen week period ended May 4, 1996, have been prepared by the Company without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations, and cash flows at May 4, 1996, and for the thirteen week periods presented have been made. Such adjustments consisted only of normal recurring items.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principals have been omitted or condensed. It is suggested that the condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended February 3, 1996. The results of operations for the period ended May 4, 1996, may not necessarily be indicative of the operating results for the full year.

NOTE 2 - EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

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

NOTE 3 - SUBSEQUENT EVENTS

ACQUISITION OF KAY-BEE CENTER, INC.

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

STOCK OFFERING

As of June 10, 1996, the Company completed an offering of 5,125,000 shares of common stock, including a underwriters' over-allotment of 125,000 shares. Net proceeds to the Company were approximately \$191.4 million.

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 3 - PRO FORMA SUMMARY OF OPERATIONS DATA (UNAUDITED)

The unaudited pro forma summary of operations data for each of the thirteen week periods ended May 4, 1996, and April 29, 1995, have been prepared by combining the consolidated statements of earnings of Consolidated Stores Corporation and Subsidiaries for each of the periods presented with the consolidated statements of operations for the thirteen week periods ended March 30, 1996, and April 1, 1995, of Kay-Bee Center, Inc., as well, as the estimated price allocation in accordance with APB 16, the Financing and the issuance of Common Stock.

	Thirteen weeks ended	
	May 4 1996	April 29, 1995
(In thousands, except loss per share data)		
Net sales	\$519,619	\$458,613
Operating loss	(16,172)	(18,614)
Net loss	(12,422)	(13,185)
Net loss per common and common equivalent share (1)	(0.23)	(0.25)

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

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

THIRTEEN WEEKS ENDED MAY 4, 1996 COMPARED TO THIRTEEN WEEKS ENDED APRIL 29, 1995

OVERVIEW

TRENDS The Company is the nation's largest close-out retailer with 887 retail stores located in 39 states at May 4, 1996. The Company operates close-out retail 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. Additionally, the Company operates toy stores, under the names Toy Liquidators and The Amazing Toy Store which carry primarily close-out toys supplemented by selected in-line toys. The table below compares components of the statements of earnings of the Company as a percent to net sales and reflects the number of retail stores in operation at the end of each period.

	Thirteen weeks ended	
	May 4, 1996	April 29, 1995
	-----	-----
Net sales:		
Retail	97.2%	97.1%
Other	2.8	2.9
	-----	-----
Total net sales	100.0	100.0
Cost of sales	57.6	57.9
	-----	-----
Gross profit	42.4	42.1
Selling and administrative expenses	40.2	40.1
	-----	-----
Operating profit	2.2	2.0
Interest expense	0.5	0.4
Other income	0.1	0.1
	-----	-----
Income before income taxes	1.8	1.7
Income taxes	0.6	0.6
	=====	=====
Net income	1.2%	1.1%
	=====	=====
 Retail stores in operation at end of period:		
Odd Lots/Big Lots	559	498
iTZADEAL! and All For One	210	197
Toy Liquidators and The Amazing Toy Store	118	85
	=====	=====
	887	780
	=====	=====

The Company has historically experienced, and expects to continue to experience, seasonal fluctuations with a significant percentage of its net sales and income being realized in the fourth fiscal quarter. In addition, the Company's quarterly results can be affected by the timing of store openings and closing, the amount of net

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

OVERVIEW - CONTINUED

sales contributed by new and existing stores and the timing of certain holidays. Quarterly fluctuations in inventory balances are normal reflecting the opportunistic purchases available at any given time and the expansion of the Company's store base. Historically, on a per store basis, inventory levels are lower at the end of the Company's fiscal year and build through the remaining three quarters of the year to a peak level in the third quarter. Accounts payable generally follow a trend similar to inventories.

NET SALES Net sales increased to \$343.2 million in the thirteen week period ended May 4, 1996, from \$291.8 million in the same period of 1995, an increase of \$51.4 million, or 17.6%. Retail sales increased \$50.1 million, or 17.7%, to \$333.5 million in first quarter of 1996 from \$283.4 million in the same 1995 period. This increase was attributable to net sales of \$42.8 million from 146 new stores and comparable store sales increases for stores open two years at the beginning of the fiscal year of 5.4%, offset in part by the closing of 39 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 Company's television advertising program, which was introduced in the fall of 1994.

GROSS PROFIT Gross profit increased to \$145.4 million in the first quarter of fiscal 1996 from \$122.9 million in the 1995 period, an increase of \$22.5 million, or 18.3%. As a percentage of net sales, gross profit increased to 42.4% in the 1996 quarter from 42.1% for the 1995 first quarter. Retail gross profit as a percent to sales improved to 42.9% from 42.6% in the first quarters of 1996 and 1995, respectively. The advance in gross margin is primarily attributable to an improved initial markup and favorable product mix offset to some extent by slightly higher markdowns and inventory shortages.

SELLING AND ADMINISTRATIVE EXPENSES Selling and administrative expenses increased to \$138.1 million for the first thirteen weeks of fiscal 1996 from \$116.9 million in the same 1995 period, an increase of \$21.2 million, or 18.1%. This reflects the greater number of stores in operation during the 1996 period. As a percentage of net sales, selling and administrative expenses increased moderately to 40.2% in the 1996 quarter compared to 40.1% in the first quarter of 1995.

INTEREST EXPENSE Interest expense as a percent to net sales was 0.5% and 0.4% in each of the first quarters of 1996 and 1995, respectively. The Company incurred increased weighted average borrowings and a rise in effective interest rates on seasonal debt during the first quarter of 1996 compared to 1995 to support increased inventory balances for the increased number of stores in operation and for capital expenditure programs. Accordingly, interest expense rose \$0.6 million, or 44.2%, for the thirteen weeks ended May 4, 1996 compared to the same period ended April 29, 1995.

INCOME TAXES The effective tax rate of the Company was 37.0% in the first quarter of 1996 compared to 38.0% in the 1995 quarter. The reduction in the effective tax rate is principally attributable to the recognition of tax planning benefits for state and local income taxes. Included in the calculation of the Company's effective tax rate is the recognition of benefits of a corporate-owned life insurance program established in 1994. Realization of any future and potentially certain past tax benefits associated with corporate-owned life insurance are subject to pending federal legislation.

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

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity for the Company has been cash flow from operations and borrowings under available credit facilities. Net cash used by operations in each of the thirteen week periods ended May 4, 1996, and April 29, 1995, as detailed in the condensed consolidated statements of cash flows, was \$58.6 million and \$50.8 million, respectively. Additionally, the Company had capital expenditures of \$11.4 million and \$6.4 million in each respective first fiscal quarter. As necessary, the Company supplemented its capital and operating cash requirements in the first quarter with borrowings under available credit facilities.

As more fully described below, concurrent with the acquisition of Kay-Bee Center, Inc. the Company terminated its existing revolving credit agreement and entered into a Revolving Credit Facility dated May 3, 1996, with a syndicate of financial institutions to provide senior bank financing in an aggregate principal amount of up to \$600 million. The Revolving Credit Facility consists of a revolving loan facility (the "Revolver") with the amount available thereunder equal to \$450 million and a letter of credit facility with up to \$200 million available for the issuance of documentary and standby letters of credit. The facility has a maturity date of May 3, 1999. At May 4, 1996, the Company borrowed \$320 million under the Revolver to finance the acquisition of Kay-Bee Center, Inc. and repay certain existing indebtedness under the prior revolving credit agreement.

As of June 10, 1996, the Company completed an offering of 5,125,000 shares of common stock, including a underwriters' over-allotment of 125,000 shares. Net proceeds to the Company of approximately \$191.4 million were utilized to repay a portion of the borrowings incurred to finance the acquisition of Kay-Bee Center, Inc.

The Company's capital structure has changed significantly from the issuance of common stock and increased credit facilities. The Company continues to believe that it will have adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. Additionally, management is not aware of any current trends, events, demands, commitments, or uncertainties which reasonably can be expected to have a material impact on the liquidity, capital resources, financial position or results of operations of the Company.

ACQUISITION OF KAY-BEE CENTER, INC.

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

The purchase price for all of the Kay-Bee common stock is approximately \$315 million, subject to a post-closing adjustment based on an audit of Kay-Bee's balance sheet. The purchase price is comprised of \$215 million in cash and \$100 million of senior subordinated notes (the "Subordinated Notes") issued by the

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

ACQUISITION OF KAY-BEE CENTER, INC. - CONTINUED

Company to Melville. The initial purchase price payment 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. Melville must provide to the Company within 60 days of the closing date an audited closing balance sheet of Kay-Bee as of the closing date setting forth the calculation of the final net book value.

Under the Stock Purchase Agreement, Melville made standard representations, warranties and covenants. Melville has agreed to indemnify the Company and its affiliates against, among other things, losses arising from the breach of warranties or covenants made by Melville and any damages under the Worker Adjustment Retraining Notification Act for occurrences prior to the closing of the Stock Purchase Agreement. With certain exceptions claims against Melville for losses under the indemnities for the breach of representations and warranties must aggregate 2.0% of the purchase price before claims can be made and then Melville will only be liable for the excess over 1.0% of the purchase price. Melville's maximum exposure to liability pursuant to its indemnities is the purchase price, as adjusted.

THE FINANCING - SUBORDINATED NOTES On May 5, 1996, in connection with the Acquisition the Company issued the Subordinated Notes to Melville. The Subordinated Notes mature in 2000 and bear interest at a rate of 7% per annum, payable semiannually. The Subordinated Notes are redeemable at the option of the Company, in whole or in part, after two years from their issuance, at a premium to their principal, plus accrued interest. 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.

THE FINANCING - BRIDGE LOAN FACILITY In connection with the Acquisition, the Company's principal operating subsidiary entered into a Bridge Loan Facility dated May 3, 1996, with Merrill Lynch Capital Corporation to provide bridge financing in an aggregate principal amount of up to \$100 million. The consummation of the Offering (as defined below), terminated the Bridge Loan Facility.

THE FINANCING - REVOLVING CREDIT FACILITY In connection with the Acquisition, the Company's principal operating subsidiary entered into a Revolving Credit Facility dated May 3, 1996, with a syndicate of financial institutions to provide senior bank financing in an aggregate principal amount of up to \$600 million. The Revolving Credit Facility consists of a revolving loan facility (the "Revolver") with the amount available thereunder equal to \$450 million and a letter of credit facility with up to \$200 million available for the issuance of documentary and standby letters of credit. The facility has a maturity date of May 3, 1999. The Company borrowed \$320 million under the Revolver to finance the acquisition of Kay-Bee and repay certain existing indebtedness.

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

ACQUISITION OF KAY-BEE CENTER, INC. - CONTINUED

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 is also required to comply with certain financial tests and maintain certain financial ratios.

THE FINANCING - OFFERING OF COMMON SHARES (THE "OFFERING") In connection with an underwritten public offering the Company sold 5,125,000 shares of Common Stock (including 125,000 shares in connection with underwriters' over-allotment). All shares were sold by the Company. The Company granted underwriters an option to purchase up to 750,000 shares of Common Stock to cover over-allotments which as of June 10, 1996, 125,000 shares were sold subject to the over-allotment. Proceeds from the Offering will be used to repay a portion of the Company's borrowings incurred under the Revolving Credit Facility.

PART II - OTHER INFORMATION

- Item 1. Legal Proceedings. Not applicable.
- Item 2. Changes in Securities. Not applicable.
- Item 3. Defaults Upon Senior Securities. Not applicable.
- Item 4. Submission of Matters to Vote of Security Holders.
- No matter was submitted during the first quarter of the fiscal year covered by this report to a vote of security holders.
- Item 5. Other Information. Not applicable.
- Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Exhibit No.	Topic
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27	Financial Data Schedule

(b) Reports on Form 8-K.

During the quarter covered by this report the Company filed the following Current Report.

Form/Date	Topic
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Form 8-K April 9, 1996	Agreement to purchase Kay-Bee Center, Inc. from Melville Corporation

SIGNATURES

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

CONSOLIDATED STORES CORPORATION

(Registrant)

Dated: June 12, 1995

By: /s/ Michael J. Potter

Michael J. Potter, Sr. Vice President,
Chief Financial Officer, and Principal
Accounting Officer

This schedule contains summary financial data extracted from Consolidated Stores Corporation and Subsidiaries Consolidated Financial Statements filed in FORM 10Q as of May 4, 1996, and the thirteen week period then ended, and is qualified in its entirety by reference to such financial statements.

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FEB-04-1996

MAY-04-1996

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