

Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended November 1, 1997 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 December 9, 1997, was 84,384,840 and there were no shares of Nonvoting Common Stock, \$.01 par value per share outstanding at that date.

CONSOLIDATED STORES CORPORATION
QUARTERLY REPORT ON FORM 10-Q

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

| | NOVEMBER 1, 1997 | FEBRUARY 1, 1997* |
|---|---------------------|----------------------|
| <hr/> | | |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 27,645 | \$ 30,044 |
| Accounts receivable | 10,935 | 9,342 |
| Inventories | 1,228,513 | 792,665 |
| Prepaid expenses and deferred income taxes | 121,429 | 94,467 |
| Total current assets | 1,388,522 | 926,518 |
| Property and equipment - net | 432,647 | 380,095 |
| Other assets | 26,408 | 23,890 |
| | \$ 1,847,577 | \$ 1,330,503 |
| <hr/> | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 390,006 | \$ 295,701 |
| Accrued liabilities and income taxes | 47,546 | 133,635 |
| Notes payable and current maturities of long-term obligations | 53,813 | 27,892 |
| Total current liabilities | 491,365 | 457,228 |
| Long-term obligations | 616,054 | 151,292 |
| Deferred income taxes and other noncurrent liabilities | 47,941 | 39,898 |
| 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 84,359,968 and 83,698,110 shares respectively | 844 | 837 |
| Nonvoting common stock - authorized 8,000,000 shares, \$.01 par value; none issued | -- | -- |
| Additional paid-in-capital | 325,816 | 312,712 |
| Retained earnings | 365,686 | 369,022 |
| Other adjustments | (129) | (486) |
| Total stockholders' equity | 692,217 | 682,085 |
| | \$ 1,847,577 | \$ 1,330,503 |
| <hr/> | | |

* Condensed from audited financial statements

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

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

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|----------------------|---------------------|-------------------------|---------------------|
| | NOVEMBER 1, 1997 | NOVEMBER 2, 1996 | NOVEMBER 1, 1997 | NOVEMBER 2, 1996 |
| Net sales | \$ 669,826 | \$ 597,314 | \$ 1,889,026 | \$ 1,451,830 |
| Cost and expenses: | | | | |
| Cost of sales | 384,420 | 342,230 | 1,104,591 | 844,889 |
| Selling and administrative expenses | 271,562 | 248,467 | 768,767 | 590,275 |
| Interest expense | 8,176 | 6,344 | 19,722 | 12,741 |
| Other - net | 426 | (1,376) | 1,415 | (1,668) |
| | 664,584 | 595,665 | 1,894,495 | 1,446,237 |
| Income (loss) from continuing operations before income taxes and extraordinary charge | 5,242 | 1,649 | (5,469) | 5,593 |
| Income tax expense (benefit) | 2,044 | 608 | (2,133) | 2,067 |
| Income (loss) from continuing operations before extraordinary charge | 3,198 | 1,041 | (3,336) | 3,526 |
| Discontinued operations | -- | (4,059) | -- | (9,657) |
| Extraordinary charge | -- | -- | -- | (1,856) |
| Net income (loss) | \$ 3,198 | \$ (3,018) | \$ (3,336) | \$ (7,987) |
| Income (loss) per common and common equivalent share: | | | | |
| Continuing operations | \$ 0.04 | \$ 0.01 | \$ (0.04) | \$ 0.04 |
| Discontinued operations | -- | (0.04) | -- | (0.12) |
| Extraordinary charge | -- | -- | -- | (0.02) |
| Net income (loss) | \$ 0.04 | \$ (0.03) | \$ (0.04) | \$ (0.10) |
| Weighted average common and common equivalent shares outstanding | 88,502 | 86,774 | 84,197 | 83,051 |

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

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

| | THIRTY-NINE WEEKS ENDED NOVEMBER 1, 1997 | NOVEMBER 2, 1996 |
|---|--|---------------------|
| <hr/> | | |
| Cash provided by (used for) operations: | | |
| Net loss | \$ (3,336) | \$ (7,990) |
| Adjustments to net loss to arrive at cash used by operations: | | |
| Extraordinary item, net | -- | 1,856 |
| Depreciation and amortization | 43,743 | 36,149 |
| Deferred income taxes | 13,306 | (14,037) |
| Other | 7,991 | 6,358 |
| Change in assets and liabilities net of effect from acquired business | (465,669) | (272,330) |
| Net cash used for operations | (403,965) | (249,994) |
| <hr/> | | |
| Cash provided by (used for) investment activities: | | |
| Payment for acquired business | -- | (185,300) |
| Capital expenditures | (99,001) | (70,337) |
| Other | 2,650 | 5,803 |
| Net cash used for investment activities | (96,351) | (249,834) |
| <hr/> | | |
| Cash provided by (used for) financing activities: | | |
| Proceeds from issuance of common stock | -- | 190,647 |
| Proceeds from credit agreements, net | 490,921 | 375,000 |
| Payment of senior notes and long-term obligations | (238) | (35,162) |
| Debt issue payments | -- | (10,393) |
| Extinguishment of debt | -- | (2,946) |
| Proceeds from exercise of stock options | 4,549 | 3,299 |
| Increase in deferred credits | 2,685 | 3,209 |
| Net cash provided by financing activities | 497,917 | 523,654 |
| Increase (decrease) in cash | \$ (2,399) | \$ 23,826 |
| <hr/> | | |
| Supplemental Data | | |
| Income taxes paid | \$ 62,644 | \$ 15,158 |
| Interest paid | 23,045 | 10,047 |
| <hr/> | | |
| Supplemental Disclosure of Non Cash Transactions | | |
| Issuance of subordinated notes - Note 2 | | |

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

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated balance sheet at November 1, 1997 and the condensed consolidated statements of income and statements of cash flows for the thirteen and thirty-nine week periods ended November 1, 1997 have been prepared by the Company without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations, and cash flows at November 1, 1997 and for the thirteen and thirty-nine week periods presented have been made. Such adjustments consisted only of normal recurring items.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principals have been omitted or condensed. It is suggested that the condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report for the year ended February 1, 1997. The results of operations for the period ended November 1, 1997, may not necessarily be indicative of the operating results for the full year.

Certain reclassifications have been made to the prior year's balance sheet and income statement to conform to current presentation.

NOTE 2 - ACQUISITION

Effective May 5, 1996, the Company acquired Kay-Bee Center, Inc. (KAY-BEE) from Melville Corporation for an initial purchase price of approximately \$315 million (subject to post-closing adjustments), consisting of \$215 million in cash and \$100 million of subordinated notes, issued to Melville Corporation. Post-closing adjustments recorded in the third quarter 1996, reduced the cash component of the purchase price by \$29.7 million to \$185.3 million. This acquisition was accounted for as a purchase with the results of KAY-BEE included from the acquisition date. At May 5, 1996, KAY-BEE operated 1,042 toy stores located in all 50 states and Puerto Rico primarily under the names Kay-Bee Toys and Toy Works.

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

(In thousands, except per share data)

| | Thirty-nine weeks ended November 2, 1996 |
|---|---|
| | ===== |
| | Unaudited |
| Net sales | \$ 1,628,220 |
| ----- | |
| Loss from: | |
| Continuing operations before extraordinary charge | \$ (14,160) |
| Discontinued operations | (9,657) |
| Extraordinary charge | (1,856) |
| ----- | |
| Net loss | \$ (25,673) |
| ===== | |
| Loss per common and common equivalent share of stock: | |
| Continuing operations before extraordinary charge | \$ (0.17) |
| Discontinued operations | (0.11) |
| Extraordinary charge | (0.02) |
| ----- | |
| Net loss | \$ (0.30) |
| ===== | |

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the KAY-BEE acquisition been consummated as of the beginning of the

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

fiscal year presented. Additionally, the pro forma financial information is not intended to be a prediction of future results and it does not reflect any synergies that may be achieved from the combined operations.

NOTE 3 - DISCONTINUED OPERATIONS

In the fourth quarter of 1996 the Company adopted a plan to close its single price point and small specialty stores operating under the names of All For One and iTZADEAL!. Accordingly, the operating results for this business are reported as a discontinued operation and prior years operating results have been restated. During the third quarter 1997 and corresponding year to date period, \$4.4 million and \$9.4 million, respectively, were charged, net of tax, against the reserve established in 1996 for discontinued operations.

NOTE 4 - INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE

Income (loss) 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, as applicable, 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.

The Board of Directors authorized 5 for 4 stock splits payable to stockholders of record on December 10, 1996, and June 10, 1997. These stock splits resulted in the issuance of 13,388,264 (unadjusted for June 10, 1997 split) and 16,852,771 new shares of common stock, respectively. All references in the financial statements to average number of shares outstanding and income (loss) per share amounts have been restated to reflect the splits unless otherwise noted.

NOTE 5 - STOCK OFFERING

As of June 10, 1996, the Company completed an offering of 5,125,000 (8,007,812 as adjusted for subsequent stock splits) shares of common stock. Net proceeds to the Company were approximately \$190.6 million.

NOTE 6 - EXTRAORDINARY ITEM

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

NOTE 7 - NEW ACCOUNTING STANDARDS

The Company calculates earnings (loss) per share using methods prescribed by Accounting Principles Board Opinion (APB) No. 15, "Earnings per Share". In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share" which replaces APB No. 15 and requires adoption for periods ending after December 15, 1997. The Statement will require dual presentation of basic and fully diluted income (loss) per share on the face of the statement of income. For the periods ended November 1, 1997, and November 2, 1996, the basic and diluted income (loss) per share calculated pursuant to SFAS No. 128 are not materially different from primary income (loss) per share calculated under APB No. 15.

In June 1997, SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," was issued. SFAS No. 131 establishes standards for the way that public companies report selected information about operating segments in annual financial statements and requires that those companies report selected information about segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS No. 131, which supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," but retains the requirement to report information about major customers, requires that a public company report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and

CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

deciding how to allocate resources to segments. SFAS No. 131 requires that a public company report a measure of segment profit or loss, certain specific revenue and expense items, and segment assets. However, SFAS No. 131 does not require the reporting of information that is not prepared for internal use if reporting it would be impracticable. SFAS No. 131 also requires that a public company report descriptive information about the way that the operating segments were determined, the products and services provided by the operating segments, differences between the measurements used in reporting segment information and those used in the enterprise's general-purpose financial statements, and changes in the measurement of segment amounts from period to period. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997. The Company has not determined the effects, if any, that SFAS No. 131 will have on the disclosures in its consolidated financial statements.

NOTE 8 - SUBSEQUENT EVENT; PROPOSED MERGER

On November 5, 1997 the Company announced it had entered into an Agreement and Plan of Merger with Mac Frugal's Bargains Close-outs Inc. (Mac Frugal's). The transaction is subject to customary conditions, including approval by both companies' shareholders and regulatory agencies. The transaction is expected to close in January 1998.

Mac Frugal's operates a chain of 321 closeout retail stores in 18 states. These stores do business as PIC 'N' SAVE and MAC FRUGAL'S BARGAINS CLOSE-OUTS. Mac Frugal's, headquartered in Dominguez, California, had sales and net income of \$773 million and \$43 million, respectively, for the fiscal year ended February 2, 1997

Under the terms of the agreement, Consolidated Stores will issue between 0.88 and 1.00 share of its common stock for each Mac Frugal's share. The final exchange ratio will be based on the average closing price per share of Consolidated Stores stock during a twenty day period prior to the effective time of the merger. Based on Consolidated Stores twenty day average closing price through November 4, 1997, the exchange ratio would be 0.99.

In connection with the merger the Company expects to take a pretax charge of \$75 to \$100 million relating to the cost of integrating the two companies. The stock-for-stock transaction will be accounted for as a pooling-of-interests and will be tax-free to both companies and their respective shareholders.

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

RESULTS OF OPERATIONS

- - - - -

OVERVIEW. The Company is the nation's largest closeout retailer and the nation's largest mall-based toy retailer with 1,946 stores located in all 50 states and Puerto Rico. The Company operates 677 retail closeout stores under the names ODD LOTS and BIG LOTS (Closeout Stores) in the midwestern, southern and mid-Atlantic regions of the United States, and 1,269 retail toy and closeout toy stores throughout the United States and Puerto Rico, primarily under the names KB TOYS, KB TOY WORKS, and KB TOY OUTLET (Toy Stores). 1,042 of the Toy Stores were acquired as of May 5, 1996 in the acquisition of KAY-BEE. As a value retailer specializing in toys and closeout merchandise, the Company seeks to provide the budget-conscious consumer with a broad range of quality, name-brand products at exceptional values. Wholesale operations are conducted under the names CONSOLIDATED INTERNATIONAL and WISCONSIN TOY.

The Closeout 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 Closeout 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 closeout toys, as well as currently promoted retail toys (known as "in-line toys") and traditional toy merchandise. The Company has been in the toy retailing business since its inception and has operated stand-alone toy stores since 1994.

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

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

The following table compares components of the statement of income as a percent of net sales and reflects the number of stores in operation at the end of each period.

| | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|---|------------------------------|---------------------|-------------------------|---------------------|
| | NOVEMBER 1, 1997 | NOVEMBER 2, 1996 | NOVEMBER 1, 1997 | NOVEMBER 2, 1996 |
| | (Percent to total net sales) | | | |
| Net sales: | | | | |
| Closeout | 56.9 % | 57.3 % | 57.1 % | 65.9 % |
| Toys | 41.6 | 40.9 | 41.3 | 32.2 |
| Other | 1.5 | 1.8 | 1.6 | 1.9 |
| | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of sales | 57.4 | 57.3 | 58.5 | 58.2 |
| Gross profit | 42.6 | 42.7 | 41.5 | 41.8 |
| Selling and administrative expenses | 40.5 | 41.6 | 40.7 | 40.7 |
| Operating profit (loss) | 2.1 | 1.1 | 0.8 | 1.1 |
| Interest expense | 1.2 | 1.0 | 1.0 | 0.9 |
| Other - net | 0.1 | (0.2) | 0.1 | (0.1) |
| Income (loss) from continuing operations before income taxes and extraordinary charge | 0.8 | 0.3 | (0.3) | 0.3 |
| Income tax expense (benefit) | 0.3 | 0.1 | (0.1) | 0.1 |
| Income (loss) from continuing operations before extraordinary charge | 0.5 | 0.2 | (0.2) | 0.2 |
| Discontinued operations | -- | (0.7) | -- | (0.7) |
| Extraordinary charge | -- | -- | -- | (0.1) |
| Net income (loss) | 0.5 % | (0.5)% | (0.2)% | (0.6)% |
| | ===== | ===== | ===== | ===== |
| | | | NOVEMBER 1, 1997 | NOVEMBER 2, 1996 |
| | | | ----- | ----- |
| Retail stores in operation at end of period: | | | | |
| Closeout | | | 677 | 649 |
| Toys | | | 1,269 | 1,220 |
| | | | ===== | ===== |
| | | | 1,946 | 1,869 |
| | | | ===== | ===== |

SALES. Net sales for the thirteen and thirty-nine week periods ended November 1, 1997, increased 12.1% and 30.1%, respectively. Comparable store sales for stores open two years at the beginning of the fiscal year increased 5.4% for the quarter and 8.2% for the year to date period. In addition to the positive comparable stores sales increases the sales improvement reflects the greater number of close-out and specialty stores in operation during the respective periods and the sales performance of KAY-BEE acquired at the beginning of the second quarter of fiscal 1996.

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

Net sales by operating unit were as follows:

| Operating Segment | THIRTEEN WEEKS ENDED | | Percentage Change |
|-------------------|----------------------|---------------------|----------------------|
| | NOVEMBER 1, 1997 | NOVEMBER 2, 1996 | |
| ----- | | | |
| (In thousands) | | | |
| Closeout | \$381,058 | \$342,331 | 11.3% |
| Toys | 278,475 | 244,328 | 14.0 |
| Other | 10,293 | 10,655 | (3.4) |
| | ===== | ===== | ===== |
| | \$669,826 | \$597,314 | 12.1% |
| | ===== | ===== | ===== |

Comparable store sales:

| | |
|----------|-------|
| Closeout | 2.8% |
| Toys | 8.5%* |

| | TWENTY-SIX WEEKS ENDED | | Percentage Change |
|----------|------------------------|---------------------|----------------------|
| | NOVEMBER 1, 1997 | NOVEMBER 2, 1996 | |
| | (In thousands) | | |
| Closeout | \$1,078,667 | \$ 957,099 | 12.7% |
| Toys | 780,081 | 466,065 | 67.4 |
| Other | 30,278 | 28,666 | 5.6 |
| | \$1,889,026 | \$1,451,830 | 30.1% |

Comparable store sales:

| | |
|----------|--------|
| Closeout | 3.3% |
| Toys | 14.6%* |

* Includes KAY-BEE comparable store sales from date of acquisition.

GROSS PROFIT. Gross profit as a percent of net sales was 42.6% for the third quarter of fiscal 1997 compared to 42.7% in the same 1996 period and was 41.5% and 41.8% for the first nine months of fiscal 1997 and 1996, respectively. The quarter reflects improved initial markups in the Closeout segment and a decline in gross profit percentage of the Toy Stores resulting from increased video games sales which traditionally have a smaller gross profit percentage. For the quarter and year to date periods, the Company has gradually increased the availability of closeout toys in the Toy Stores, which traditionally have a higher gross profit percentage.

Components of gross profit as a percent to each operating segments sales were as follows:

| Operating Segment | THIRTEEN WEEKS ENDED | | THIRTY-NINE WEEKS ENDED | |
|-------------------|----------------------|---------------------|-------------------------|---------------------|
| | NOVEMBER 1, 1997 | NOVEMBER 2, 1996 | NOVEMBER 1, 1997 | NOVEMBER 2, 1996 |
| Closeout | 42.4% | 42.0% | 41.9% | 41.6% |
| Toys | 43.6 | 44.5 | 41.6 | 43.3 |
| Other | 24.2 | 22.3 | 25.2 | 22.7 |
| | ----- | ----- | ----- | ----- |
| | 42.6% | 42.7% | 41.5% | 41.8% |
| | ===== | ===== | ===== | ===== |

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

SELLING AND ADMINISTRATIVE EXPENSES. As a percent to net sales, selling and administrative expenses were 40.5% and 41.6% in the third quarter of fiscal 1997 and 1996 respectively, and 40.7% in each of the year to date periods. Historically the Toy Stores cost structure has resulted in a higher percentage ratio of selling and administrative expenses to net sales in the first three quarters of the year. Accordingly, the comparative year to date increment in selling and administrative expenses as a percent to net sales reflects the full period impact in 1997 of KAY-BEE Toys.

INTEREST EXPENSE. Interest expense increased \$1.8 million in the third quarter of 1997 and \$7.0 million for the year to date period. The increase was attributable to higher weighted average debt levels utilized principally to support operating requirements for the increased number of Toy Stores, increased inventory levels, and capital expenditures.

INCOME TAXES. The estimated annual effective income tax rate for the Company has increased from 37.0% in 1996 to 39.0%. The increase in rate results primarily from the surrender of the Company's corporate-owned life insurance program in 1996.

CAPITAL RESOURCES AND LIQUIDITY

Working capital at November 1, 1997, was \$897.2 million, a 91.2% increase compared to \$469.3 million at February 1, 1997. The primary sources of liquidity for the Company has been, and continues to be, cash flow from operations and borrowings under available credit facilities. Net cash used by operations in each of the thirty-nine week periods ended November 1, 1997, and November 2, 1996, as detailed in the condensed consolidated statements of cash flows, was \$404.0 million and \$250.0 million, respectively. The utilization by operations in 1997 is principally attributable to increased inventory levels reflecting the greater number of stores in operation, the strong opportunistic availability of closeout merchandise, and the impact of seasonality in the toy business. Future comparisons of funds used and provided by operations are anticipated to continue to fluctuate as a result of these factors. Additionally, the Company had capital expenditures of \$99.0 million and \$70.3 million in each respective year to date period. Capital expenditures in 1997 are expected to be approximately \$110 million to \$120 million principally for the anticipated opening of approximately 75 net Closeout Stores and an estimated 80 to 90 net Toy Stores plus capital requirements for warehouse expansion and systems needs.

As necessary, the Company supplements its capital and operating cash requirements with borrowings under available credit facilities. At November 1, 1997, approximately \$28.6 million was available for direct borrowings under the Company's \$600 million Revolving Credit Facility (Revolver) and an additional \$65.0 million of uncommitted credit facilities were available, subject to the terms of the Revolver.

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. Other than the planned merger as more fully described below, management is not aware of any other 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.

OTHER EVENTS; PLANNED MERGER

On November 5, 1997 the Company announced it had entered into an Agreement and Plan of Merger with Mac Frugal's Bargains Close-outs Inc. (Mac Frugal's). The transaction is subject to customary conditions, including approval by both companies' shareholders and regulatory agencies. The transaction is expected to close in January 1998.

Mac Frugal's operates a chain of 321 closeout retail stores in 18 states. These stores do business as PIC 'N' SAVE and MAC FRUGAL'S BARGAINS CLOSE-OUTS. Mac Frugal's, headquartered in Dominguez, California, had sales and net income of \$773 million and \$43 million, respectively, for the fiscal year ended February 2, 1997.

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

Under the terms of the agreement, Consolidated Stores will issue between 0.88 and 1.00 share of its common stock for each Mac Frugal's share. The final exchange ratio will be based on the average closing price per share of Consolidated Stores stock during a twenty day period prior to the effective time of the merger. Based on Consolidated Stores twenty day average closing price through November 4, 1997, the exchange ratio would be 0.99.

Management believes the merger will result in a number of important synergies and it is expected that certain business functions of Mac Frugal's will be integrated into the operations of the Company following the merger. In connection with the merger the Company expects to take a pretax charge of \$75 to \$100 million relating to the cost of integrating the two companies. The merger is expected to be accretive to earnings, before synergies or any onetime charges associated with the merger. The stock-for-stock transaction will be accounted for as a pooling-of-interests and will be tax-free to both companies and their respective shareholders.

This transaction will expand the Company's closeout store presence from coast to coast, with over 1,000 closeout store locations and minimal market overlap. Mac Frugal's stores are comparable to the Company's ODD LOTS and BIG LOTS STORES in size and the closeout merchandise strategies of the two companies are similar. The combined company is projected to have over \$4 billion in revenue for the fiscal year ending January 1998.

PART II - OTHER INFORMATION

- Item 1. Legal Proceedings. Not applicable.
- Item 2. Changes in Securities. Not applicable.
- Item 3. Defaults Upon Senior Securities. Not applicable.
- Item 4. Submission of Matters to Vote of Security Holders.

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

- Item 5. Other Information.

The Private Securities Litigation Reform Act of 1995 ("the Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. Certain statements contained in Management's Discussion and Analysis and in other Company filings are forward-looking statements. These statements discuss among other things, expected growth, future revenues, future cash flows and future performance. The forward looking statements are subject to risks and uncertainties including but not limited to competitive pressures, inflation, consumer debt levels, currency exchange fluctuations, trade restrictions, changes in tariff and freight rates, capital market conditions, and other risks indicated in the Company's filings with the Securities and Exchange Commission. Actual results may materially differ from anticipated results described in these statements.

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

- (a) Exhibits.

| Exhibit No. | Document |
|-------------|-------------------------|
| ----- | ----- |
| 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 |
|-----------|--|
| ----- | ----- |
| Form 8-K | Agreement and Plan of Merger with Mac |
| | Frugal's - Bargains Close-outs Inc. Nov. 6, 1997 |

SIGNATURES

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

CONSOLIDATED STORES CORPORATION

(Registrant)

Dated: December 9, 1997

By: /s/ Michael J. Potter

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

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL DATA EXTRACTED FROM CONSOLIDATED STORES CORPORATION AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS FILED IN FORM 10Q AS OF NOVEMBER 1, 1997, AND THE THIRTEEN AND THIRTY-NINE WEEK PERIODS THEN ENDED, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

| | | |
|-----------|-------------|-----------|
| 3-MOS | | |
| | JAN-31-1998 | |
| | FEB-02-1997 | |
| | NOV-01-1997 | |
| | | 27,645 |
| | | 0 |
| | | 10,935 |
| | | 0 |
| | | 1,228,513 |
| | 1,388,522 | |
| | | 654,937 |
| | 222,290 | |
| | 1,847,577 | |
| | 491,365 | |
| | | 616,054 |
| | 0 | |
| | | 0 |
| | | 844 |
| | | 691,373 |
| 1,847,577 | | |
| | | 669,826 |
| | 669,826 | |
| | | 384,420 |
| | 655,982 | |
| | 426 | |
| | 0 | |
| | 8,176 | |
| | 5,242 | |
| | | 2,044 |
| | 3,198 | |
| | | 0 |
| | | 0 |
| | | 0 |
| | | 3,198 |
| | | 0.04 |
| | | 0.04 |