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FINANCIAL HIGHLIGHTS

(Amounts in thousands,
except per share and ratio data)

	1985	1984
Net Sales	\$776,002	\$774,860
Net Earnings (Loss)	\$ 64,215*	\$ (79,818)
Net Earnings (Loss) Per Share		
Primary	\$ 3.87*	\$ (4.95)
Fully Diluted	\$ 3.17*	
Average Number of Shares Outstanding	16,589	16,140
Working Capital	\$187,318	\$ 81,310
Current Ratio	2.6 to 1	1.3 to 1
Long-Term Debt	\$149,892	\$133,704
Stockholders' Equity	\$102,352	\$ 10,502

*Excludes extraordinary credit resulting from utilization of tax loss carryforwards of \$18.7 million, or \$1.13 per share primary, and \$.88 per share fully diluted.

ABOUT COLECO

Coleco Industries, Inc. is a leading manufacturer of toys and entertainment products for the family.

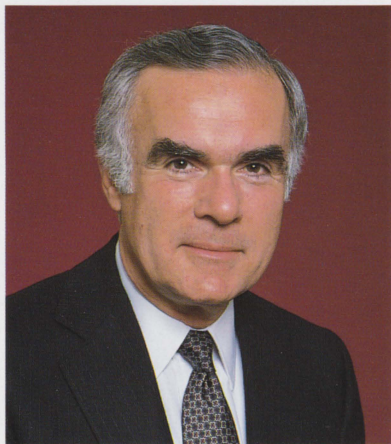
Coleco markets *Cabbage Patch Kids* dolls and related accessories, *Rambo* action figures, *Furskins* bears, electronic play and learn toys, ride-on vehicles, children's backyard play and furniture products, swimming and wading pools, and other traditional toys.

The Company also markets the *Wrinkles* plush puppies, the *Tubtown* bath toys series and a complete line of skill and action games through its Lakeside Industries, Inc. subsidiary.

Manufacturing and distribution facilities in the United States and Canada total approximately 3 million square feet, and average employment during 1985 was approximately 4,500 people.

Coleco believes that the toy industry provides a continuing opportunity for profitable growth and plans to continue to broaden the base of its toy business through internal product development and acquisition.

MANAGEMENT REPORT



Arnold C. Greenberg
*Chairman and
Chief Executive Officer*

Summary

The past year was one of significant progress for Coleco. The Company accomplished a rapid turnaround from the difficulties of 1984, set an earnings record and substantially improved its financial condition. Coleco broadened the base of its business through the expansion of existing product lines and the introduction of several major new product categories, laying the foundation for continued expansion and growth in the years ahead.

Operating Results

Sales for 1985 were \$776.0 million compared with sales of \$774.9 million for 1984. Earnings for the year were at a record level, totaling \$64.2 million or \$3.87 per share, excluding the extraordinary credit of \$18.7 million from utilization of tax loss carryforwards, and net earnings were \$82.9 million or \$5.00 per share, including the credit. For 1984 the Company had incurred a net loss of \$79.8 million or \$4.95 per share.

Coleco concluded 1985 in the strongest financial condition in its history. Short-term bank debt was entirely repaid and cash and equivalents at the end of 1985 totaled \$110 million. Working capital increased to \$187 million from \$81 million a year ago as the Company's current ratio doubled to 2.6 to 1 from 1.3 to 1. Stockholders' equity at year-end was \$102 million, nearly ten times the level at year-end 1984.

Accounts receivable and inventory were both reduced substantially to \$100 million and \$40 million respectively, in each case less than half the year-ago level.

Coleco's Toy segment produced sales of \$719.8 million for 1985 and an operating profit of \$157.7 million. Sales of the *Cabbage Patch Kids* product line totaled \$600 million, up from \$540 million for 1984. Sales of Coleco's other toy products, including ride-on vehicles, family action games, *Sectaurs* action figures, backyard play and furniture items, and swimming and wading pools represented the balance.

Coleco's Consumer Electronics segment generated sales of \$56.2 million for 1985 and incurred an operating loss of \$38.5 million, nearly all attributable to *ColecoVision*. During the course of the year, all *ADAM* and *ColecoVision* inventory was sold, completing the discontinuation of those product lines.

Corporate Strategy

The toy industry experienced a rate of growth of approximately 5% last year. Observers expect a moderately higher increase in 1986, which provides us with an opportunity for continued profitable growth.



J. Brian Clarke
*President and
Chief Operating Officer*

Factors contributing to industry growth include favorable demographic trends such as the increase in toy spending per child to upwards of \$170 a year, and the continuing rise in the number of first births, on whom parents and grandparents traditionally spend more. Sociological and economic changes in the family situation are also having an impact, as both household discretionary income and the purchasing power represented by extended families continue to increase.

Further supporting this growth is the concentration within the industry itself resulting in larger, financially stronger toy companies.

At the end of 1984, the Company established the near-term strategic objectives discussed below in order to pursue the attractive opportunities for profitable growth within the toy industry.

Strengthen Management — During 1985 the three senior executive officers of the Company assumed new roles and responsibilities, resulting in an overall strengthening of the management structure. Arnold C. Greenberg was appointed Chairman and remained Chief Executive Officer. J. Brian Clarke was appointed President and Chief Operating Officer and Leonard E. Greenberg became Chairman of the Executive Committee. For the first time in Coleco's history, the operating duties of the Chief Operating Officer were separated from the strategic responsibilities of the Chief Executive Officer, thus assuring the integrity of our day-to-day operational disciplines while providing the proper focus on the Company's future direction.

Several senior executives from the toy industry have joined Coleco since the beginning of 1985, bringing with them years of sales, marketing and product development experience. The initial results of this organizational expansion are evidenced by the innovative and diversified product line described on the following pages.

Strengthen Financial Condition — Of critical importance during 1985 was the rapid strengthening of the balance sheet and the overall financial condition of the Company. This was accomplished as a result of increased sales and record earnings, the sale of all inventory in our Consumer Electronics segment and the sale of approximately \$30 million of convertible subordinated debentures in Switzerland in June 1985.

In addition, the Company recently raised approximately \$160 million through the sale of 15-year subordinated debentures at an effective interest rate of 12⁵/₈%, which further improved the Company's working capital position.

Maintain Profitability Leadership — In both 1984 and 1985 Coleco ranked third in sales and first in profitability in its Toy segment as measured by pretax earnings as a percent of sales. The Company will

MANAGEMENT REPORT (continued)

strive to maintain its leadership in profitability by developing innovative new product concepts, engaging in long-term licensing opportunities, and focusing on effective cost controls to ensure the continuation of attractive profit margins on its products.

Develop Cabbage Patch Kids Brand — As both a licensee and co-developer of the *Cabbage Patch Kids* program, Coleco has been instrumental in evolving the *Cabbage Patch Kids* from a fad product to a high volume brand name category. In 1985 Coleco's *Cabbage Patch Kids* sales increased to \$600 million, bringing total sales since their June 1983 introduction to over \$1.2 billion. We believe that the continued success of the *Cabbage Patch Kids* line and the ongoing cultural impact the *Cabbage Patch Kids* have on daily life are meaningful indications that the *Cabbage Patch Kids* are well on their way to becoming a long lived toy industry staple.

For 1986 Coleco has expanded the 'Kids line with a broad range of new products at wider price points. The Company plans to continue to extend the line by consistently introducing new *Cabbage Patch Kids* products that will appeal to both the large base of *Cabbage Patch Kids* "parents" and new consumer market segments as well. Coleco continues to work closely with Xavier Roberts and his company, Original Appalachian Artworks, Inc., to ensure the success of this process.

Broaden Product Base — A major strategic objective has been to broaden the base of the Company's business within the toy industry through both internal product development and acquisition. During 1985 Coleco expanded its existing product lines and announced the introduction of several major new product groups.

Coleco acquired Leisure Dynamics, Inc. (now Lakeside Industries, Inc.), and as a result, gained a foothold in several toy product categories. Lakeside's line includes *Wrinkles* plush puppies, named "Toy of the Year" in Canada in 1985; preschool items such as the popular *Tubtown* bath toys; and skill and action games including *Aggravation*, *Perfection* and *Perquackey*. Coleco expects to achieve a higher level of success with these popular products through more intensive marketing, advertising and distribution.

Coleco subsequently acquired a line of advanced electronic play and learn products which utilize large memory capacities and high quality synthesized voices. We expect this category to experience significant growth in the years ahead as parents seek to provide their children with high quality products which create entertaining and stimulating learning environments.

Coleco also obtained the license for the *Furskins* bears, created by Xavier Roberts, the originator of the *Cabbage Patch Kids*. In keeping with the original design, each of the eight *Furskins* in Coleco's

line wears distinctive country clothing and work boots. Coleco will also bring to the mass market Roberts' larger *Furskins* bears, which have previously been distributed only through gift and specialty stores.

Coleco has also introduced a boys' action figure line, based on *Rambo*, the fictional character who has generated more interest and excitement than any other movie figure in recent popular culture.

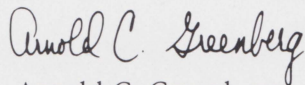
In developing the line of a dozen articulated action figures and several accessory items, Coleco has positioned the *Rambo* character as the leader of *The Force of Freedom*. An animated *Rambo* mini series is scheduled to air on TV this spring, and a 65-episode animated *Rambo* series is planned to start this fall.

Coleco's plans for its 1987 product line are already well underway, and the Company expects to take advantage of additional product development and acquisition opportunities.

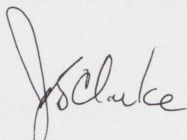
Expand International Sales — Outside of our operations in the U.S. and Canada, Coleco has traditionally engaged in limited sales and marketing activities. In mid-1985 the Company made the commitment to substantially expand and strengthen Coleco's presence in Europe. The Company has established a wholly owned subsidiary which has opened an office in the United Kingdom to act as a base for U.K. sales and marketing activities and a subsidiary in Switzerland to deal with Western European markets. These expanded activities are expected to generate sales from these markets now and on an increasing basis in the coming years.

Conclusion

As a result of the strong support provided by our customers, suppliers, and stockholders, and the continuing effort and dedication of our employees, Coleco was able to make substantial strides toward the achievement of these important objectives during 1985. We expect to continue this progress in the current year and thereby strengthen our position as a toy industry leader.



Arnold C. Greenberg
Chairman and
Chief Executive Officer



J. Brian Clarke
President and
Chief Operating Officer

March 26, 1986

FURSKINS

Coleco is featuring a new line of *Furskins* bears, which were created by Xavier Roberts, the originator of the *Cabbage Patch Kids*. Inspired by his deep affection for the mountains of North Georgia, Roberts designed his *Furskins* with a country charm that appeals to all ages.

Furskins are simple bear-folk who wear distinctive country clothing and work boots. As the story goes, they run a General Store in *Moody Hollow*, a little known settlement tucked well into the woods and hills of North Georgia. Since *Moody Hollow* has yet to be “discovered” by human beings, the *Furskins* still wait for their first customer, more eager for making contact with people than for making a sale.

Roberts introduced his original 22" *Furskins* to the collectors market early in 1985, distributing them through gift and specialty stores. Later that year, Coleco obtained the license to produce its own line of eight smaller *Furskins* bears for national distribution through its toy accounts.

Coleco's line includes *J. Livingston Clayton*, a gentle outdoorsman who spreads good cheer and friendship to all who dwell in the surrounding woods; *Bubba*, a hard working potato farmer who's devoted to his crop and proud of its award winning yield; handy *Cecelia*, who will eagerly fix anything that needs repair; and *Lila Claire*, who keeps herself looking her best in preparation for the first *Moody Hollow* beauty contest. There's also *Hank "Spitball,"* who loves to play baseball; the energetic *Junie Mae*, who keeps everyone in good spirits with her square dancing; and *Persimmon*, the sweet toothed baker's assistant who provides everyone with raisin pies. Last of all is *Thistle*, the youngest and cuddliest bear cub in all of North Georgia, who's content to rest with a pacifier dipped in honey.

In addition to its line of eight *Furskins*, Coleco will also bring Roberts' original four *Furskins* bears to the mass market through its national distribution network.



BROAN
SINK STRAIN

100%
COTTON

hkoshaqosi

RAMBO

For 1986 Coleco has introduced a major new boys' action figure line based on *Rambo*, the fictional character who has generated more excitement and interest than has any other popular culture figure in recent years.

With *Rambo* Coleco has the opportunity to develop an already well known and recognizable character into a figure that is particularly appealing to children.

In Coleco's product line, *Rambo* is portrayed as a heroic all American figure whose sense of fair play and compassion make him a very special kind of hero. Unequaled in courage, unflinching in patriotism, *Rambo* is the leader of *The Force of Freedom*, a group of expertly trained specialists recruited from all over the world. Operating under the auspices of the U.S. Government, *The Force of Freedom* has as its objectives the preservation of freedom and the prevention of worldwide terrorism perpetrated by an international group of terrorists known as *S.A.V.A.G.E.* In carrying out its missions against *S.A.V.A.G.E.*, *Rambo's Force of Freedom* does not destroy life; instead, it disarms the terrorists by destroying their weaponry.

Engineered for ease of handling by children, the 12 action figures are fully articulated and stand 6³/₄" tall. They each come with a unique battle-action accessory and a plastic ID card containing biographical information and weapons data. A variety of land and air accessories and a highly detailed playset extend the play value of the line.

In the spring, *Rambo*, *The Force of Freedom*, and *S.A.V.A.G.E.* will be introduced in a 5-part animated mini series, followed by a 65-episode daily animated series in the fall.



TOW MISSILE
TOW MISSILE

428
C.L.D.

DEFENDER

TP-29-32

6

CABBAGE PATCH KIDS

For 1985 the *Cabbage Patch Kids* were once again the largest selling line in the history of the toy industry. Sales for the year totaled \$600 million, up from \$540 million for 1984.

The continued success of the *Cabbage Patch Kids* is demonstrable not only in terms of the rate of sale, but particularly in terms of the unparalleled impact they continue to have on American culture.

Consumers of all ages continue to invent ways of involving themselves further in the *Cabbage Patch Kids* program by engaging their 'Kids in almost every aspect of life. Summer camps for the 'Kids, day care centers, beauty pageants, look alike contests and birthday parties are just some of the events planned by *Cabbage Patch Kids* enthusiasts.

Also of significance is the fact that many *Cabbage Patch Kids* "parents" are engaging in multiple adoptions — increasing their *Cabbage Patch Kids* family with the addition of new members. We expect that this trend will continue, as Coleco consistently broadens the line with entirely new *Cabbage Patch Kids* with different features and new capabilities.

For 1986 Coleco's *Cabbage Patch Kids* line includes 'Kids with new faces, dimples, double chins, and even some with tongues sticking out coyishly. The new 'Kids also have either a right or left hand that can actually hold an accessory.

New too are the *Cabbage Patch Kids Circus Kids*, dressed in brightly colored and fully detailed clown costumes, and *Cabbage Patch Kids Baseball All Stars*, outfitted in officially licensed major league baseball team uniforms.

There are also *Cabbage Patch Kids Young Astronauts*, which were developed as a result of Coleco's corporate sponsorship of the *Young Astronaut* Program. This nationwide school program, mandated by President Reagan last year, is intended to intensify children's study of math and science and encourage their interest in the U.S. space program. Each *Cabbage Patch Kids Young Astronaut* comes dressed in an authentically detailed space suit, complete with helmet, boots and backpack.

There are entirely new members of the *Cabbage Patch Kids* family too, such as the *Cornsilk Kids*, which feature silky hair that can be combed and styled, as well as 12" *Cabbage Patch Kids Babies* that have soft bodies just right for cuddling. New *Cabbage Patch Kids Preemie Twins* have also been added to the line, as have Baby 'Koosas right from *Wykoosa Valley*.

Many new accessories are available for the *Cabbage Patch Kids*, including genuine wood furniture and a *Cabbage Patch Kids Cycle Stroller* and *Baby Walker*.

Coleco plans to continue to expand the *Cabbage Patch Kids* line with new and exciting products that will appeal to both the existing consumer base and to untapped segments of the market as well.



WRINKLES — LAKESIDE INDUSTRIES, INC.

Already a proven success as “Toy of the Year” for 1985 in Canada, *Wrinkles* plush puppies are now being introduced to the U.S. marketplace through Coleco’s Lakeside subsidiary. *Wrinkles* are soft, sad looking wrinkled puppies with a built in puppet feature that encourages interaction between the child and the puppy. The child can actually animate the puppy by putting his hand in the sculpted pocket of its head.

Wrinkles also have huggable bodies, floppy ears, wagging tongues and freely moving arms and legs that provide for lots of fantasy play. *Wrinkles* come in two sizes, 17" and 28", and are available in a variety of fur, nose and eye colors. The extensive hand labor that goes into producing each *Wrinkles* results in slight differences in the noses, arms and legs, making each somewhat individual. In addition, each pup wears a female or male oriented outfit with a pocket that holds a soft-sculptured bone. An official “bone” label appears under the pup’s left ear, marking each *Wrinkles* as authentic, while a personalized dog tag bearing a registered number hangs from the neck.

Through its Lakeside subsidiary, Coleco is also offering a collection of popular skill and action family games, including *Aggravation*, *Perfection* and *Perquackey*, as well as *Barrel of Monkeys*, now in its twentieth year in the marketplace.

Lakeside’s *Tubtown* series of preschool bathtub toys makes bath time a fun and imaginative experience for children. The Sea Circus, School House, Harbor Village, Merry-Go-Round and Fireboat toys are all creatively constructed, brightly colored activity centers that delight the eye and spark the imagination in or outside the tub.



ELECTRONIC PLAY AND LEARN TOYS

Recognizing the increasingly important role of electronics in education in the 1980's, Coleco has introduced a line of advanced play and learn electronic toys. These products utilize proven state of the art technology, including large memory capacities and sophisticated voice synthesis. As both educational and entertainment products, these items create a stimulating learning environment for children of all ages.

My Talking Computer is a complete electronic center that uses a top quality synthesized voice to teach children basic skills such as shape and color identification, letter and number learning, reading, and story and song making. It also has a module that teaches children how to tell time.

Talking Teacher combines the teaching of spelling and math in one unit and encourages competition through games involving number and word skills. *Little Genius* is a compact learning aid that challenges children with math problems and can also be used as a digital calculator and stand up clock.

My Friend *Talking Toby* is a unique electronic "companion" that speaks in a friendly voice, amuses with his animated LCD "face," and interacts with children in a fascinating repertoire of play and learn activities.

Coleco's play and learn electronic toys are designed for continuous, long time use. Expansion modules for higher learning levels are available for most of the items, allowing the products to grow at the child's pace of learning.

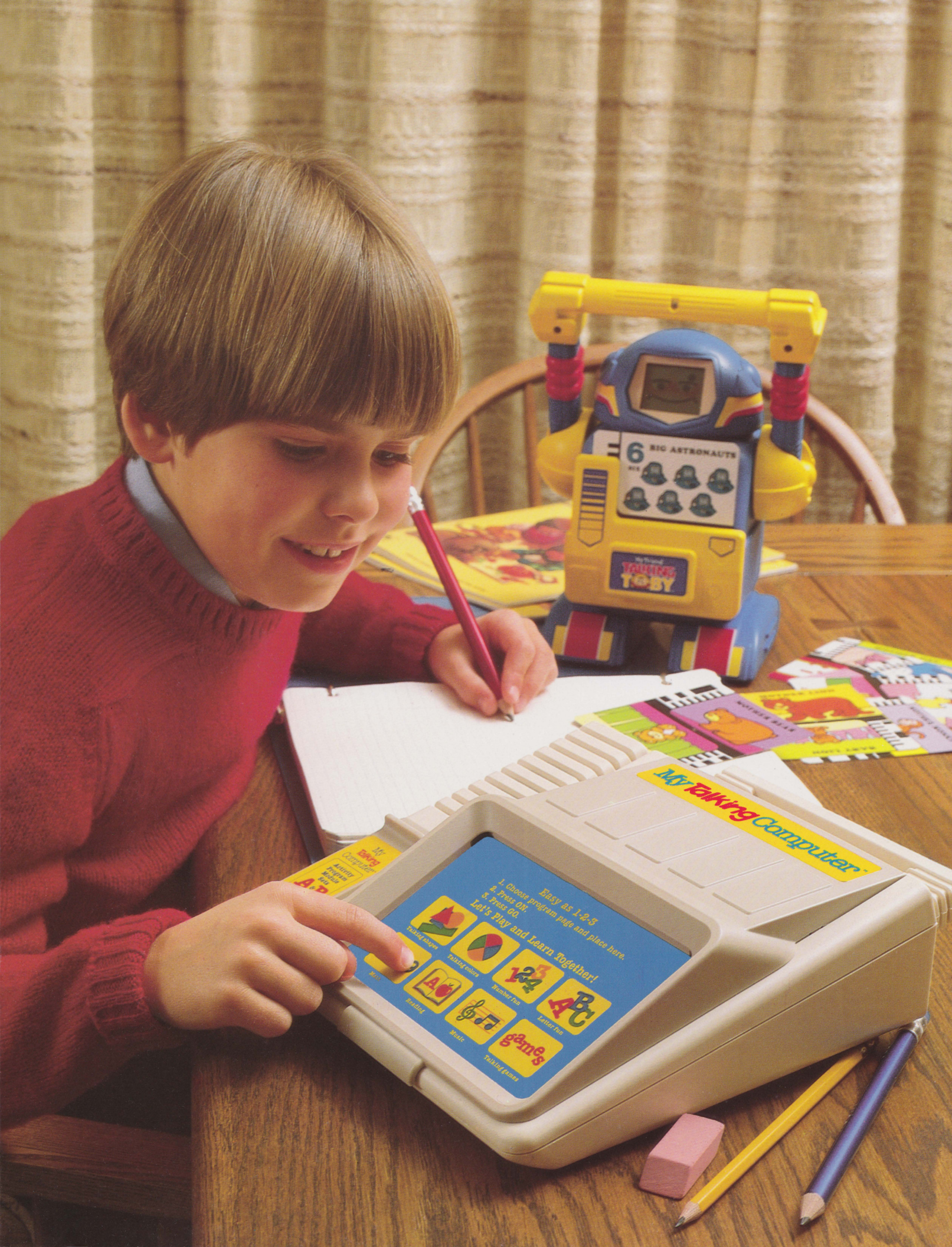
BASIC TOYS AND GAMES

Over the decades, Coleco has been a consistent producer of basic or traditional playthings for children. The Company understands the appeal of popular licensed characters and has developed its ride-on vehicle category to include a number of instantly recognizable properties such as *Knight Rider*, *Cabbage Patch Kids*, *Transformers* and *Sesame Street*, and new licenses for 1986 such as *Popples*, *Rambo* and *MASK*. Coleco has also broadened its ride-on line with the addition of two pre-school ride-ons, both with play and learn features.

The Company continues to be the largest producer of swimming and wading pools 12 feet in diameter and smaller. This line includes a wide variety of plastic or "poly" wading pools, kids' splasher pools and larger pools for family fun.

Coleco's broad line of indoor/outdoor molded furniture, which includes play tables, chairs and play boxes, has also been enlarged with the addition of the new *Kids' Creative Corner* and *Good Cookin' Kitchen*, which serve as full activity centers for young children.

The Company also maintains a line of family action and skill games including *Power Jet* hockey tables and rod hockey games, and continues to produce snow products such as plastic coasters, sleds and toboggans.



6 BIG ASTRONAUTS



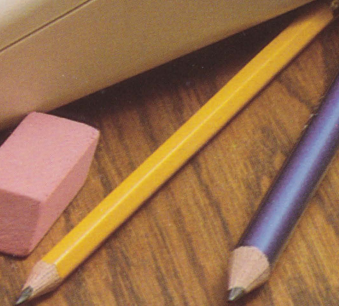
My Friend TALKING TOBY

My Talking Computer

Easy as 1-2-3
1. Choose program page and place here.
2. Press ON.
3. Press GO.
Let's Play and Learn Together!



My Talking Computer
Using Program Pages
A B C



Coleco Industries, Inc.

CONSOLIDATED STATEMENT OF OPERATIONS

Years Ended December 31, 1985, 1984 and 1983

(Amounts in thousands, except per share data)	1985	1984	1983
Net Sales	\$776,002	\$774,860	\$596,498
Costs and Expenses:			
Cost of goods sold	407,458	504,650	403,793
Selling and administrative expenses	249,297	201,598	197,959
Interest expense	26,435	39,188	19,595
Loss from disposition of <i>ADAM</i>		118,602	
	683,190	864,038	621,347
Earnings (Loss) Before Income Taxes and Extraordinary Credit	92,812	(89,178)	(24,849)
Income Tax Provision (Benefit)	28,597	(9,360)	(17,416)
Earnings (Loss) Before Extraordinary Credit	64,215	(79,818)	(7,433)
Extraordinary Credit Resulting from Utilization of Tax Loss Carryforwards	18,700		
Net Earnings (Loss)	\$ 82,915	\$(79,818)	\$ (7,433)
Per Share Results:			
Primary:			
Earnings (Loss) Before Extraordinary Credit	\$ 3.87	\$ (4.95)	\$ (.48)
Extraordinary Credit	1.13		
Net Earnings (Loss)	\$ 5.00	\$ (4.95)	\$ (.48)
Fully Diluted:			
Earnings Before Extraordinary Credit	\$ 3.17		
Extraordinary Credit88		
Net Earnings	\$ 4.05		

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

Coleco Industries, Inc.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years Ended December 31, 1985, 1984 and 1983

(Amounts in thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Equity Adjustment from Translation
Balances at December 31, 1982	\$15,298	\$ 8,445	\$71,772	\$ (844)
Net earnings (loss)			(7,433)	
Issuance of common stock for subscriptions	716			
Increase under long-term incentive plan		2,526		
Foreign currency translation adjustment				(125)
Balances at December 31, 1983	16,014	10,971	64,339	(969)
Net earnings (loss)			(79,818)	
Issuance of common stock for subscriptions and awards	141			
Increase under long-term incentive plan		2,270		
Foreign currency translation adjustment				(1,538)
Balances at December 31, 1984	16,155	13,241	(15,479)	(2,507)
Net earnings			82,915	
Issuance of common stock:				
Conversion of convertible debentures	535	6,817		
Subscriptions and awards	308			
Increase under long-term incentive plan		2,164		
Foreign currency translation adjustment				(1,420)
Balances at December 31, 1985	\$16,998	\$22,222	\$67,436	\$(3,927)

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

Coleco Industries, Inc.
CONSOLIDATED BALANCE SHEET
 December 31, 1985 and 1984

(Amounts in thousands, except share data)	1985	1984
Assets		
Current Assets:		
Cash and equivalents	\$ 110,734	\$ 1,506
Accounts receivable, net	100,314	206,712
Inventories	40,672	86,474
Other current assets	53,893	30,716
Total current assets	305,613	325,408
Property, Plant and Equipment, net	49,912	49,947
Investment in Affiliate	13,634	
Other Assets	28,382	13,649
	\$397,541	\$389,004
Liabilities and Stockholders' Equity		
Current Liabilities:		
Long-term debt — current portion	\$ 5,784	\$ 5,087
Notes payable to banks		106,047
Accounts payable	35,382	86,358
Income taxes payable	15,060	148
Accrued expenses	62,069	46,458
Total current liabilities	118,295	244,098
Long-Term Debt	21,670	28,594
Deferred Income Taxes	12,298	250
Other Deferred Liabilities	14,704	450
Subordinated Debentures due 2002	52,445	52,359
Convertible Subordinated Debentures due 1989 and 1993	75,777	52,751
Stockholders' Equity:		
Preferred stock — \$1 par value, 300,000 shares authorized; no shares issued		
Common stock — \$1 par value, 75,000,000 shares authorized; 1985 — 16,997,725 shares issued, 1984 — 16,154,704 shares issued	16,998	16,155
Common stock subscribed	157	416
Capital in excess of par value	22,222	13,241
Retained earnings (deficit)	67,436	(15,479)
Equity adjustment from translation	(3,927)	(2,507)
	102,886	11,826
Subscriptions receivable	(534)	(1,324)
Total stockholders' equity	102,352	10,502
	\$397,541	\$389,004

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

Coleco Industries, Inc.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1985, 1984 and 1983

(Amounts in thousands)	1985	1984	1983
Financial Resources Were Provided by:			
Net earnings (loss) before extraordinary credit	\$ 64,215	\$(79,818)	\$ (7,433)
Add (deduct) items not requiring working capital:			
Depreciation and amortization	11,406	19,849	7,282
Increase in stockholders' equity under long-term incentive plan	2,164	2,270	2,526
Deferred income taxes	2,750	(9,778)	6,953
Other deferred liabilities	5,417	450	
Other, net	3,982	1,699	(42)
Total provided by operations before extraordinary credit	89,934	(65,328)	9,286
Extraordinary credit	18,700		
Total provided by operations	108,634	(65,328)	9,286
Proceeds from long-term obligations	29,172	60,733	14,340
Stock issued for conversion of debentures	7,352		
Reinstate deferred tax credits	9,298		
Other, net	2,953	1,077	2,986
	157,409	(3,518)	26,612
Financial Resources Were Used for:			
Additions to property, plant and equipment	14,566	13,863	36,981
Investment in affiliate	13,634		
Increase in long-term prepaid royalties and advertising	9,268	3,000	7,000
Reduction of long-term obligations	13,933	6,086	4,461
	51,401	22,949	48,442
Increase (Decrease) in Working Capital	106,008	(26,467)	(21,830)
Working Capital at beginning of year	81,310	107,777	129,607
Working Capital at end of year	\$187,318	\$ 81,310	\$107,777
Changes in Working Capital Items:			
Increase (Decrease) in Current Assets:			
Cash and equivalents	\$109,228	\$(4,425)	\$(46,543)
Accounts receivable	(106,398)	48,690	50,219
Inventories	(45,802)	(78,190)	95,515
Other current assets	23,177	(47,757)	56,984
(Increase) Decrease in Current Liabilities:			
Long-term debt—current portion	(697)	(1,418)	(65)
Notes payable to banks	106,047	60,373	(166,420)
Accounts payable	50,976	(4,973)	(16,997)
Income taxes payable	(14,912)	2,584	7,219
Accrued expenses	(15,611)	(1,351)	(1,742)
Increase (Decrease) in Working Capital	\$106,008	\$(26,467)	\$(21,830)

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

Coleco Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Summary of Significant Accounting Policies:

Principles of Consolidation — The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany accounts and transactions.

Translation of Foreign Currency — The assets and liabilities of foreign subsidiaries are translated at the current exchange rate, and revenue and expense accounts are translated at the average exchange rate during the period. Gains or losses from foreign currency transactions are included in earnings, and gains or losses from translation of foreign subsidiary financial statements are accumulated and included as a separate component of stockholders' equity.

Accounts Receivable — The Company provides allowances for doubtful accounts, estimated returns for defective product, price reductions and discounts and other credits.

Inventories — Inventories are valued at cost, determined on the first-in, first-out method, or market, whichever is lower.

Prepaid Advertising — The Company enters into agreements under which it exchanges products for media advertising. Prepaid advertising is recorded based on the fair value of the advertising received or of the Company's products exchanged, whichever is more clearly determinable. This asset is used to reduce future cash outlays for advertising and is charged to expense at such time as the advertising is utilized.

Property, Plant and Equipment — Property, plant and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets. Major improvements to existing plant and equipment are capitalized. Expenditures for maintenance and repairs which do not extend the useful lives of the assets are charged to expense as incurred. The costs of molds, dies and fixtures are depreciated over the estimated market life of the related products, but not more than three years. The cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in earnings.

Income Taxes — Deferred income taxes are provided for income and expense items which are recognized for tax purposes in different years than for financial reporting purposes. Investment tax credits are recorded as reductions of income tax expense in the year they are realized.

Long-Term Incentive Plan — For stock subscription rights, the excess of the fair market value of the shares subscribed over the purchase price of the shares is charged to compensation expense and credited to capital in excess of par value ratably over the restriction period (generally four years). Subscriptions receivable representing the purchase price of the shares is deducted from stockholders' equity. For restricted stock, the fair market value of the shares is charged to compensation expense and credited to capital in excess of par value ratably over the restriction period (generally five years).

Earnings (Loss) Per Share — Primary earnings (loss) per share is computed based on the weighted average number of shares of common stock outstanding and common stock equivalents assumed outstanding during the year (16,589,000 shares in 1985, 16,140,000 shares in 1984 and 15,656,000 shares in 1983).

Fully diluted earnings per share is computed assuming all convertible debentures were converted at the beginning of the year, or the date of issue if later, and after giving effect to the elimination of interest expense, less income tax effect, applicable to the convertible debentures (21,547,000 shares in 1985). The effect of the convertible debentures was not dilutive in 1984.

Pension — Pension costs are actuarially computed and include current service costs and the amortization of prior service costs and actuarial gains and losses over periods of up to fifteen years.

Note 2 — Investment in Affiliate:

In December, 1985, the Company acquired approximately 41% of the outstanding common stock of Leisure Dynamics, Inc. (Leisure) for cash of \$8,629,000. Subsequent to December 31, 1985, the remaining outstanding common stock was acquired for \$12,341,000. Additionally, the Company directly acquired Leisure's newly issued preferred stock for cash and unsecured notes payable totaling \$5,000,000. The acquisition will be accounted for as a purchase and Leisure's results of operations will be included in the consolidated statement of operations from January 1, 1986. Leisure manufactures and sells preschool toys, games and action toy products. Based on unaudited results, Leisure had net sales of approximately \$18,000,000 and a net loss of \$7,500,000 for the 12 months ended December 31, 1985. At December 31, 1985, Leisure had net assets before purchase accounting adjustments of \$500,000 and had a net operating loss carryforward for financial reporting purposes of approximately \$20,000,000, which when realized will be accounted for as a reduction of the purchase price of Leisure.

Note 3 — Loss from Disposition of ADAM:

The consolidated statement of operations for the year ended December 31, 1984 included a provision of \$118,602,000 for losses resulting from the decision to discontinue the ADAM Family Computer product line. In 1985 the Company sold all of its ADAM inventory, and related accounts receivable of \$13,188,000 represent the Company's only remaining ADAM asset at December 31, 1985. Actual losses realized in 1985 from disposition of the product line approximated the amounts previously provided.

Note 4 — Income Taxes:

The income tax provision (benefit) for the years ended December 31 consisted of the following:

(Amounts in thousands)	1985	1984	1983
Current:			
Federal	\$13,140		\$(31,367)
Foreign	1,466	\$ 2,350	4,545
State	3,200	(701)	(2,660)
Total Current	17,806	1,649	(29,482)
Deferred:			
Accounts receivable allowances	(7,897)		
Inventory write-downs	17,515		
Prepaid royalties			5,208
Safe harbor tax lease	3,586		4,067
Deferred royalty income			3,242
Depreciation	2,277		1,741
Compensation under incentive plans			(1,027)
Release of prior year deferred tax credits		(9,298)	
Accrued expenses	(4,672)		
Other	(18)	(1,711)	(1,165)
Total Deferred	10,791	(11,009)	12,066
Total Provision (Benefit)	\$28,597	\$(9,360)	\$(17,416)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The differences between the income tax provision (benefit) and the amount computed using the statutory federal rate for years ended December 31 were as follows:

(Amounts in thousands)	1985		1984		1983	
	\$	%	\$	%	\$	%
Income tax provision (benefit) at the statutory federal rate of 46%	\$42,694	46.0	\$(41,022)	(46.0)	\$(11,431)	(46.0)
Investment tax and other credits	(950)	(1.0)			(2,691)	(10.8)
Difference between statutory federal rate and foreign effective rate					(1,163)	(4.7)
State income taxes (net of federal tax benefit)	1,472	1.6			(1,085)	(4.4)
Release of prior year deferred tax credits			(9,298)	(10.4)		
Tax credit and operating loss carryforwards	(17,352)	(18.7)	40,889	45.9		
Other	2,733	2.9	71		(1,046)	(4.2)
	\$28,597	30.8	\$(9,360)	(10.5)	\$(17,416)	(70.1)

The 1985 provision for income taxes contains charges in lieu of federal and state income taxes of \$18,700,000, representing taxes which would have been provided in the absence of operating loss carryforwards from 1984. Income tax benefits for the year ended December 31, 1985 resulting from utilization for financial reporting purposes of the operating loss carryforwards are presented as an extraordinary credit.

No provision is required for U.S. federal taxes on the undistributed earnings of subsidiaries not consolidated for domestic income tax purposes since it is the intention of the Company to reinvest such undistributed earnings in the foreign location. At December 31, 1985, the net undistributed earnings of subsidiaries not consolidated for domestic income tax purposes was \$22,907,000. Foreign tax credits may be available as a reduction of domestic income taxes in the event of distribution.

Note 5 — Long-Term Obligations and Credit Lines:

Long-Term Debt — Long-term debt at December 31 consisted of the following:

(Amounts in thousands)	1985	1984
11% Term loan due 1988	\$ 8,242	\$10,692
Mortgage and equipment loans due through 1998	11,925	14,970
Capitalized lease obligations	7,287	8,019
	27,454	33,681
Current portion	(5,784)	(5,087)
Long-term debt	\$21,670	\$28,594

The term loan bears interest at 11% with annual principal payments increasing from \$2,535,000 in 1986 to \$3,127,000 in 1988. The mortgage and equipment loans bear interest at rates up to 1% over the prime rate with annual principal payments ranging from \$2,446,000 in 1986 to \$327,000 in 1998. The term loan and the mortgage and equipment loans are collateralized by \$42,056,000 of the Company's net property, plant and equipment.

Aggregate annual principal payments for the next five years under long-term debt (excluding capitalized leases described in Note 6) are 1986-\$4,980,000, 1987-\$5,167,000, 1988-\$4,990,000, 1989-\$1,758,000, and 1990-\$706,000.

Subordinated Debentures — The 14 $\frac{3}{8}$ % Subordinated Debentures due 2002 have a maturity value of \$60,500,000 and a yield to maturity of 16.16%. The Debentures are redeemable at any time at the option of the Company, except that they may not be redeemed prior to November 1, 1987 with money borrowed at an annual interest cost of less than 16.16%. Annual sinking fund requirements of \$6,050,000 in cash or acquired Debentures commence in 1993.

Convertible Subordinated Debentures — Convertible Subordinated Debentures at December 31 consisted of the following:

(Amounts in thousands)	1985	1984
11% Convertible Subordinated Debentures due 1989	\$47,075	\$52,751
6 $\frac{1}{2}$ % Convertible Subordinated Debentures due 1993	28,702	
	\$75,777	\$52,751

The 11% Convertible Subordinated Debentures were issued in 1984 with a stated maturity value of \$55,000,000. The Debentures are convertible into shares of the Company's common stock at a conversion price of \$13.75 per share. During 1985, Debentures with a maturity value of \$6,302,000 were converted into common stock. The Company may at its option terminate the convertibility of the Debentures if the last reported sale price of the Company's common stock on the New York Stock Exchange is at least 150% of the conversion price for twenty consecutive trading days. After such termination of convertibility the Company may at its option redeem the Debentures at par.

In June, 1985, the Company sold Convertible Subordinated Debentures due 1993 with a stated maturity value of \$44,480,000. The Debentures bear interest payable in Swiss Francs at a rate of 6 $\frac{1}{2}$ % of the issue price of Swiss Francs 80,000,000 (\$30,688,000 at June 20, 1985), and were issued at 69.1% of face value, resulting in a yield to maturity of 10.4%. The net proceeds were \$29,119,000 after deducting underwriting, discount and other issue costs.

The Debentures are convertible into shares of the Company's common stock at a conversion price of \$17.125 per share based on the issue price. If the entire original stated maturity value of the Debentures is converted, the Company will be required to issue 1,792,000 shares of common stock. During 1985, Debentures with a stated maturity value of \$1,898,740 were converted into 76,496 shares of common stock. The Company may at its option redeem the Debentures provided that the average of the closing price of the Company's common stock on the New York Stock Exchange (the average closing price) is at least \$20.55 for twenty-five consecutive trading days, and, in addition, such average closing price, when translated into Swiss Francs at the average Swiss Franc/U.S. dollar exchange rate for such twenty-five trading days, is not less than 110% of the conversion price in Swiss Francs.

Credit Lines — The Company reached an agreement in principle to replace its domestic line of credit which expired on December 31, 1985 with a \$150,000,000 credit agreement which provides for the periodic sale of the Company's accounts receivable. At December 31, 1985, the Company's Canadian subsidiary had a line of credit which totaled \$25,000,000. The line of credit is collateralized by the accounts receivable of the Canadian subsidiary.

Supplemental Information — Short-term borrowings pursuant to the Company's lines of credit were as follows:

(Amounts in thousands)	1985	1984	1983
Average amount outstanding	\$ 35,704	\$159,469	\$ 81,314
Maximum amount outstanding	\$112,150	\$189,869	\$171,164
Average effective interest rate	12.1%	13.1%	10.3%
Effective interest rate at end of year		12.4%	10.6%

At December 31, 1985, there were no outstanding borrowings under the credit agreements.

Note 6 — Leases:

The Company leases certain facilities and machinery and equipment under both capital and operating leases. Capital leases are essentially installment purchases and expire at various dates through 1992. Amortization of assets acquired under capital leases is included with depreciation expense.

Future minimum lease payments as of December 31, 1985 under all leases with initial or remaining non-cancelable terms in excess of one year are summarized as follows:

(Amounts in thousands)	All Leases	Capital Leases
Year Ended:		
December 31, 1986	\$ 4,725	\$ 1,734
December 31, 1987	4,455	1,726
December 31, 1988	4,213	1,713
December 31, 1989	3,728	1,687
December 31, 1990	2,792	957
Subsequent years	11,102	2,614
Total minimum payments	\$31,015	10,431
Less amount representing interest and executory costs		(3,144)
Present value of minimum lease payments under capital leases		\$ 7,287

Rental expense under operating leases amounted to \$2,858,000, \$2,461,000 and \$1,556,000 for the years ended December 31, 1985, 1984 and 1983, respectively.

The Company also leases its corporate headquarters from a partnership of which Arnold C. Greenberg and Leonard E. Greenberg together own a 50% interest. The lease, entered into on August 3, 1982, is for an initial period of ten years at an annual rent of \$180,900 for the first five years and \$189,945 for the remaining five years plus the annual debt service of \$837,528 payable by the partnership on its first mortgage. The Company has the right to extend the lease for four additional terms of five years and the right to purchase the leased premises at any time after the fifth year. Based on two independent appraisals it received, the Company believes that the annual rent under the lease is less than the rent which would be paid for similar property in the Greater Hartford area.

Note 7 — Long-Term Incentive Plan:

The 1981 Long-Term Incentive Plan for officers and key employees of the Company provides for various types of awards. These awards include stock subscription rights, restricted stock and non-qualified and incentive stock options. The number of shares authorized under the Plan is 2,000,000, of which 256,000 shares were available for award at December 31, 1985.

Stock subscription rights granted under the Plan generally provide for a subscription price equal to one-third of the fair market value of the common stock on the date of grant. Changes in stock subscription rights under the Plan were as follows:

(Amounts in thousands, except per share data)	Number of Shares	Subscription Price Per Share	Total
Subscription rights outstanding at December 31, 1982	1,030	\$ 2.96	\$3,047
Granted	150	\$1.00 - \$ 7.54	216
Exercised	(716)	\$1.00 - \$ 2.96	(1,863)
Subscription rights outstanding at December 31, 1983	464	\$2.96 - \$ 7.54	1,400
Granted	60	\$4.42	265
Exercised	(36)	\$2.96 - \$4.42	(128)
Canceled	(72)	\$ 2.96	(213)
Subscription rights outstanding at December 31, 1984	416	\$2.96 - \$7.54	1,324
Granted	60	\$4.17	250
Exercised	(308)	\$2.96 - \$7.54	(1,007)
Canceled	(11)	\$ 2.96	(33)
Subscription rights outstanding at December 31, 1985	157	\$2.96 - \$7.54	\$ 534

Receivables arising from the granting of subscription rights bear interest at rates up to 12% and are generally payable in equal annual installments through 1988.

Incentive stock options granted under the Plan expire in 1992 and are generally exercisable in three cumulative annual installments beginning one year after the date of grant. Options are granted at prices equal to 100% of the fair market value of the common stock on the date of grant. Changes in qualified incentive stock options were as follows:

(Amounts in thousands, except per share data)	Number of Shares	Option Price Per Share	Total
Options outstanding at December 31, 1983	72	\$17.35 - \$37.25	\$1,289
Granted	122	\$15.69 - \$18.00	1,913
Canceled	(14)	\$17.35	(243)
Options outstanding at December 31, 1984	180	\$15.69 - \$37.25	2,959
Granted	88	\$13.13 - \$16.82	1,365
Canceled	(45)	\$13.13 - \$37.25	(746)
Options outstanding at December 31, 1985	223	\$13.13 - \$17.35	\$3,578

Outstanding incentive stock options for 48,200 shares were exercisable at December 31, 1985.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Restricted stock awards made under the Plan provide for the issuance of shares two years after the date of award. In addition, shares awarded are subject to reacquisition by the Company for a period of five years from the date of award. There are no restricted stock awards outstanding at December 31, 1985.

During 1985, a non-qualified stock option was granted for 200,000 shares at an option price of \$14.56 per share.

Note 8 — Pension Plans:

The Company and its Canadian subsidiary have pension plans covering substantially all of their salaried, clerical and administrative employees. Pension expense for the years ended December 31, 1985, 1984 and 1983 was \$1,445,000, \$1,207,000 and \$813,000, respectively. The Company makes annual contributions to the plans equal to the amounts accrued for pension expense.

The actuarial present value of accumulated benefits to participants of the plans and the net assets available for those benefits (at the valuation date of January 1) were as follows:

(Amounts in thousands)	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	\$4,226	\$3,789
Nonvested	1,234	897
Total	\$5,460	\$4,686
Net assets available for benefits	\$5,071	\$3,795

The rate of return used in determining the actuarial present value of accumulated plan benefits was 9%.

Note 9 — Commitments and Contingencies:

Several class action suits against the Company and certain of its officers and directors were filed in late 1983 and 1984 relating to the introduction and manufacture of the ADAM computer. The parties have agreed to a proposed settlement of \$15,750,000, which will be funded by the Company and its insurance carrier and will be paid in mid-1987, if confirmed by the parties and approved by the court. The Company has included in its 1985 financial statements a fourth quarter charge of \$5,000,000 resulting from the settlement.

In the second quarter of 1985, the Company settled litigation involving patent infringement claims. A non-recurring charge of \$6,000,000 was recorded for settlement of this litigation.

The Company also is or has been a party to a number of miscellaneous lawsuits arising from the conduct of its business. In the opinion of management, such proceedings in the aggregate will not have a material adverse effect on the Company's consolidated financial position.

Minimum guaranteed royalties under certain licensing agreements aggregated approximately \$27,500,000 at December 31, 1985 and are payable principally over a three year period.

Note 10 — Supplementary Financial Information:

(Amounts in thousands)	1985	1984	
Cash and equivalents consisted of the following:			
Cash	\$ 796	\$ 1,506	
Time deposits	26,100		
Certificates of deposit	9,151		
Commercial paper	67,626		
Other	7,061		
	\$110,734	\$ 1,506	
Accounts receivable consisted of the following:			
Accounts receivable	\$141,222	\$260,408	
Less: allowances	(40,908)	(53,696)	
	\$100,314	\$206,712	
Inventories consisted of the following:			
Raw materials	\$ 12,439	\$ 28,494	
Work-in-process	3,862	8,162	
Finished goods	24,371	49,818	
	\$ 40,672	\$ 86,474	
Other current assets consisted of the following:			
Prepaid advertising, less noncurrent portion of \$12,601 and \$10,000 included in other assets	\$ 22,089	\$ 20,039	
Deferred income taxes	19,947		
Other	11,857	10,677	
	\$ 53,893	\$ 30,716	
Property, plant and equipment consisted of the following:			
Land	\$ 762	\$ 1,187	
Buildings	30,252	25,400	
Machinery and equipment	33,594	39,573	
Molds, dies and fixtures	10,794	18,764	
Capital leases	7,969	8,974	
	83,371	93,898	
Less: accumulated depreciation	(33,459)	(43,951)	
	\$49,912	\$49,947	
Accrued expenses consisted of the following:			
Advertising	\$23,926	\$13,485	
Promotions	6,156	1,112	
Other, principally royalties, compensation and interest	31,987	31,861	
	\$62,069	\$46,458	
(Amounts in thousands)	1985	1984	1983
Other supplementary financial information:			
Advertising expense	\$79,853	\$ 57,004	\$75,770
Royalty expense	\$41,367	\$46,782	\$28,985
Product development expense	\$12,505	\$24,801	\$29,083

Note 11 — Business Segment Information:

The Company operates in two industry segments: Toys and Consumer Electronics. The Toy segment consists of dolls and accessories, action figures, ride-on vehicles, outdoor recreational products, and toys and games. The Consumer Electronics segment consisted principally of the *ADAM* Family Computer and *ColecoVision* video game systems, accessories and software. All of the Company's *ADAM* and *ColecoVision* inventory was sold in 1985. The Company intends to continue this business segment and will pursue new product opportunities as they arise.

The following sets forth selected financial information relating to industry segments for the years 1983 through 1985. In instances where costs and expenses were related to both segments, allocations were made primarily on the basis of net sales.

(Amounts in thousands)	1985	1984	1983
Net Sales:			
Toys	\$719,812	\$676,336	\$192,568
Consumer Electronics	56,190	98,524	403,930
	\$776,002	\$774,860	\$596,498
Operating Profit (Loss):			
Toys	\$157,715	\$208,594	\$ 17,011
Consumer Electronics	(38,468)	(139,982)	(22,265)
	119,247	68,612	(5,254)
Interest Expense	(26,435)	(39,188)	(19,595)
Loss from Disposition of <i>ADAM</i>		(118,602)	
Earnings (Loss) Before Income Taxes	\$ 92,812	\$ (89,178)	\$ (24,849)
Identifiable Assets:			
Toys	\$243,797	\$281,177	\$119,608
Consumer Electronics	17,291	99,597	348,650
Corporate and Unallocable	136,453*	8,230	9,274
	\$397,541	\$389,004	\$477,532
Capital Expenditures:			
Toys	\$ 14,484	\$ 7,451	\$ 7,024
Consumer Electronics	82	6,412	29,957
	\$ 14,566	\$ 13,863	\$ 36,981
Depreciation Expense:			
Toys	\$ 7,935	\$ 6,749	\$ 2,502
Consumer Electronics	3,471	13,100**	4,780
	\$ 11,406	\$ 19,849	\$ 7,282

* Primarily cash and equivalents.

** Includes \$8,013,000 of additional depreciation resulting from the disposition of *ADAM*.

Geographical Information — The Company's operations are conducted primarily in the United States and Canada. Generally, inter-company sales are at prices approximating those which the selling entity is able to obtain on sales of similar products to unaffiliated customers reduced by advertising, selling and other expenses of sale to be incurred by the purchasing entity.

The following table sets forth selected information relating to United States and foreign (primarily Canadian) operations, including export sales, for the years 1983 through 1985.

(Amounts in thousands)	1985	1984	1983
Net Sales:			
United States	\$715,576	\$707,975	\$526,051
Foreign	83,257	102,460	98,652
Intergeographic	(22,831)	(35,575)	(28,205)
	\$776,002	\$774,860	\$596,498
Operating Profit (Loss):			
United States	\$115,216	\$ 65,846	\$ (17,513)
Foreign	4,031	2,766	12,259
	119,247	68,612	(5,254)
Interest Expense	(26,435)	(39,188)	(19,595)
Loss From Disposition of <i>ADAM</i>		(118,602)	
Earnings (Loss) Before Income Taxes	\$ 92,812	\$ (89,178)	\$ (24,849)
Identifiable Assets:			
United States	\$364,433	\$333,193	\$420,237
Foreign	33,108	55,811	57,295
	\$397,541	\$389,004	\$477,532

Net sales to the Company's two largest customers were approximately 14% and 12% of consolidated net sales in 1985. Sales to these customers represented 20% of the Toys and substantially all of the Consumer Electronics net sales.

Note 12 — Selected Quarterly Information (Unaudited):

(Amounts in thousands, except per share data)

1985	For the				
Quarter Ended	Mar 30	June 29	Sept 28	Dec 31	Year
Net Sales	\$194,130	\$187,918	\$241,976	\$151,978	\$776,002
Gross Profit	\$ 89,020	\$ 98,411	\$109,074	\$ 72,039	\$368,544
Earnings Before Extraordinary Credit	\$ 19,373	\$ 17,483	\$ 23,222	\$ 4,137	\$ 64,215
Net Earnings	\$ 27,397	\$ 24,580	\$ 26,801	\$ 4,137	\$ 82,915
Per Share Results:					
Primary:					
Earnings Before Extraordinary Credit	\$ 1.18	\$ 1.06	\$ 1.40	\$.23	\$ 3.87
Net Earnings	\$ 1.67	\$ 1.49	\$ 1.61	\$.23	\$ 5.00
Fully Diluted:					
Earnings Before Extraordinary Credit	\$ 1.00	\$.88	\$ 1.08	\$.21	\$ 3.17
Net Earnings	\$ 1.42	\$ 1.24	\$ 1.18	\$.21	\$ 4.05
1984					For the
Quarter Ended	Mar 31	June 30	Sept 29	Dec 31	Year
Net Sales	\$186,104	\$166,606	\$181,268	\$240,882	\$774,860
Gross Profit	\$ 58,393	\$ 57,083	\$ 75,654	\$ 79,080	\$270,210
Net Earnings (Loss)	\$ 4,441	\$ 5,138	\$ 3,778	\$ (93,175)	\$ (79,818)
Net Earnings (Loss) Per Share	\$.27	\$.32	\$.23	\$ (5.77)	\$ (4.95)

Note: The fourth quarter of 1984 was adversely affected by certain costs associated with the *ADAM* Family Computer System. See Note 3 and Management's Discussion and Analysis of Financial Condition and Results of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 13 — Inflation Accounting (Unaudited):

The following supplemental information is supplied in accordance with the requirements of Statement of Financial Accounting Standards No. 33 "Financial Reporting and Changing Prices," for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

In accordance with the Statement of Financial Accounting Standards No. 82, the Company has substituted historical cost/constant purchasing power information to measure the effects of inflation on the Company for current cost/constant purchasing power information as there was no material difference between the amount of income (loss) from continuing operations that would be disclosed by the two methods.

Historical cost/constant purchasing power information provides data adjusted for general inflation using the Consumer Price Index for all Urban Consumers (CPI-U) as the measure of the general inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value of purchasing power (constant dollars).

The effects of inflation under the constant dollar method were determined by adjusting the historical cost of inventories, property, plant and equipment, cost of sales, and depreciation expense to average 1985 dollars by use of the CPI-U. Income taxes were not adjusted from the amount in the primary financial statements.

Statement of Income from Continuing Operations Adjusted for Changing Prices for the Year 1985

(Amounts in thousands)	As reported in Consolidated Statement of Operations	Constant Dollar (adjusted for general inflation)*
Net Sales	\$776,002	\$776,002
Costs and Expenses:		
Cost of goods sold (excluding depreciation)	398,365	400,882
Selling and administrative expenses (excluding depreciation)	246,984	246,984
Depreciation	11,406	11,604
Interest expense	26,435	26,435
	683,190	685,905
Earnings Before Income Taxes	92,812	90,097
Income Tax Provision	28,597	28,597
Earnings Before Extraordinary Credit	64,215	61,500
Extraordinary Credit	18,700	18,700
Net Earnings	\$ 82,915	\$ 80,200
Gain from decline in purchasing power of net monetary liabilities		\$ 4,523

* In average 1985 dollars.

Five Year Comparison of Selected Supplementary Financial Data Adjusted For Effects of Changing Prices

(Amounts in thousands, except per share and CPI-U data)	Years Ended December 31				
	1985	1984	1983	1982	1981
Net Sales:					
Historical	\$776,002	\$774,860	\$596,498	\$510,380	\$178,031
Adjusted for general inflation*	\$776,002	\$802,507	\$644,074	\$568,815	\$210,579
Historical cost information adjusted for general inflation*:					
Net earnings (loss)	\$ 80,200	\$ (86,698)	\$ (12,068)		
Primary net earnings (loss) per share	\$ 4.72	\$ (5.37)	\$ (.77)		
Net assets at year-end	\$126,888	\$ 33,477	\$112,937		
Other information:					
Gain from decline in purchasing power of net monetary liabilities*	\$ 4,523	\$ 6,339	\$ 3,336		
Market price per common share at year-end:					
Historical	\$ 16.00	\$ 12.13	\$ 19.50	\$ 18.38	\$ 3.44
Adjusted for general inflation*	\$ 15.75	\$ 12.38	\$ 20.70	\$ 20.25	\$ 3.93
Average consumer price index — (CPI-U)	322.2	311.1	298.4	289.1	272.4

* In average 1985 dollars.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Coleco Industries, Inc.:

We have examined the consolidated balance sheet of Coleco Industries, Inc. and subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of operations, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Coleco Industries, Inc. and subsidiaries as of December 31, 1985 and 1984, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers Lybrand

Coopers & Lybrand
Hartford, Connecticut
February 14, 1986

Coleco Industries, Inc.

FIVE YEAR FINANCIAL SUMMARY

(Amounts in thousands, except per share and ratio data)	1985	1984	1983	1982	1981
Operating Data:					
Net Sales	\$776,002	\$774,860	\$596,498	\$510,380	\$178,031
Cost of Goods Sold	407,458	504,650	403,793	279,840	115,172
Selling and Administrative Expenses	249,297	201,598	197,959	135,386	44,925
Interest Expense	26,435	39,188	19,595	9,707	4,470
Loss from Disposition of ADAM		118,602*			
Earnings (Loss) Before Income Taxes and Extraordinary Credit	92,812	(89,178)	(24,849)	85,447	13,464
Income Tax Provision (Benefit)	28,597	(9,360)	(17,416)	40,551	5,753
Earnings (Loss) Before Extraordinary Credit	64,215	(79,818)	(7,433)	44,896	7,711
Extraordinary Credit Resulting from Utilization of Tax Loss Carryforwards	18,700				
Net Earnings (Loss)	\$ 82,915	\$(79,818)	\$ (7,433)	\$ 44,896	\$ 7,711
Net Earnings (Loss) Per Share:					
Primary:					
Earnings (Loss) Before Extraordinary Credit	\$ 3.87	\$ (4.95)	\$ (.48)	\$ 2.90	\$.51
Net Earnings (Loss) Per Share	\$ 5.00	\$ (4.95)	\$ (.48)	\$ 2.90	\$.51
Fully Diluted:					
Earnings Before Extraordinary Credit	\$ 3.17				
Net Earnings Per Share	\$ 4.05				
Balance Sheet Data:					
Working Capital	\$187,318	\$ 81,310	\$107,777	\$129,607	\$ 41,164
Current Ratio	2.6 to 1	1.3 to 1	1.4 to 1	2.1 to 1	2.2 to 1
Total Assets	\$397,541	\$389,004	\$477,532	\$285,865	\$ 99,395
Long-Term Obligations, excluding current portion	\$149,892	\$133,704	\$ 78,772	\$ 68,829	\$ 17,075
Stockholders' Equity	\$102,352	\$ 10,502	\$ 89,419	\$ 92,653	\$ 47,467
Book Value per Common Share	\$ 6.02	\$.65	\$ 5.58	\$ 6.06	\$ 3.10

*See Note 3 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Overview

Sales and earnings for 1985 were greater than those for any previous year in the Company's history. This resulted primarily from increased sales of *Cabbage Patch Kids* products, and a reduction in losses associated with Consumer Electronics. During 1985, production of *ADAM* and *ColecoVision* electronics products was completed and the remaining inventory sold. The operating performance for 1985 has also significantly strengthened the Company's financial condition. During this period, the Company repaid its entire short-term bank debt and substantially improved its working capital and stockholders' equity positions.

Results of Operations

1985 Compared with 1984

Net sales in 1985 were \$776 million, compared with \$774.9 million in 1984. Toy sales were \$719.8 million, a 6% increase from the 1984 sales of \$676.4 million. This increase was due primarily to new models of *Cabbage Patch Kids* products and to a lesser extent, selling price increases. Sales of *Cabbage Patch Kids* products were \$600 million in 1985 and \$540 million in 1984. In addition, the introduction of *Sectaurs* action figures increased 1985 sales revenues. These increases were partially offset by reductions in sales of other Toy products. Net sales of Consumer Electronics products decreased to \$56.2 million from \$98.5 million in 1984, primarily due to the lower selling prices associated with disposition of the *ADAM* and *ColecoVision* inventory.

Cost of goods sold decreased by 19% to \$407.5 million in 1985, which resulted in increased gross profit, as a percent of net sales, from 35% in 1984 to 48% in 1985. The increase in gross profit in 1985 of \$98.3 million was due primarily to higher sales and improved gross margins for the *Cabbage Patch Kids* product line and a reduction of the losses associated with Consumer Electronics.

Selling and administrative expenses increased by \$47.7 million, or 24% from the 1984 level and were 32% of sales, compared with 26% the previous year. The principal increase resulted from higher advertising and promotion costs for the *Cabbage Patch Kids* line, which was not promoted extensively prior to 1985, and from higher than anticipated costs associated with the introduction and sale of the *Sectaurs* product line in 1985. Selling and administrative expenses in 1985 also included non-recurring charges of \$11 million relating to the settlement of litigation (see Note 9 of the Notes to Consolidated Financial Statements). In addition, royalty income earned from *Cabbage Patch Kids* licenses declined

by approximately \$9 million in 1985. The increase in the 1985 expense level was partially offset by a reduction in royalty expense of \$5.4 million and in other costs relating to Consumer Electronics.

The increase in the gross profit of the Toys segment of the Company's business in 1985 was offset by increased selling and administrative expenses and lower royalty income, which resulted in a decrease in the operating profit of the Toys segment to \$157.7 million from \$208.6 million in 1984. The operating loss of the Consumer Electronics segment was \$38.5 million in 1985, compared with a prior year operating loss of \$140 million and a provision of \$118.6 million for losses relating to the disposition of the *ADAM* product line. The 1985 Consumer Electronics loss resulted primarily from price reductions and other costs associated with the sale of the *ColecoVision* inventory. Actual losses realized in 1985 from disposition of the *ADAM* product line approximated the provisions established in 1984. The discontinuance of these products will further reduce sales of electronics in 1986. The Company, however, intends to continue this business segment and will pursue new product opportunities as they arise.

Interest expense decreased in 1985 by \$12.8 million primarily because of lower short-term borrowings and lower interest rates, partially offset by interest expense on the convertible subordinated debentures issued during 1984 and 1985.

The effective income tax rate of 31% in 1985 was lower than the federal statutory rate primarily as a result of investment tax and other credits carried forward from prior years. The extraordinary credit resulting from utilization of operating loss carryforwards increased net earnings in 1985 by \$18.7 million to \$82.9 million compared with a net loss of \$79.8 million in the prior year. All available tax credit and operating loss carryforwards were utilized during 1985.

Sales for the fourth quarter of 1985 totaled \$152 million, compared with sales of \$240.9 million for the fourth quarter of 1984 (see Note 12 of the Notes to Consolidated Financial Statements). Sales of *Cabbage Patch Kids* products in the fourth quarter of 1984 exceeded each of the earlier quarters of the year as the Company increased its manufacturing capability to meet the high level of demand for the *Cabbage Patch Kids* products. During 1985, the Company was able to respond to customer orders in a more timely fashion. At year-end 1985, all orders for *Cabbage Patch Kids* products had been filled, unlike the situation at the end of 1984, when there was a large unfilled order backlog.

See Note 13 of the Notes to Consolidated Financial Statements for a discussion of the effects of inflation and changing prices.

1984 Compared with 1983

Net sales in 1984 were \$774.9 million, an increase of 30% over 1983. Toy sales increased by 251% to \$676.4 million while Consumer Electronics sales decreased by 76% to \$98.5 million. The increase in Toys resulted primarily from higher unit sales of *Cabbage Patch Kids* dolls and accessories. Sales of this product line exceeded \$540 million in 1984 compared with approximately \$67 million in 1983. The decline in sales of Consumer Electronics was primarily due to reduced sales of *ColecoVision* products. The increase in shipments of the *ADAM* computer system in 1984 was largely offset by provisions for price reductions and returns recorded in the last half of the year.

Cost of goods sold increased by 25% to \$504.7 million primarily as a result of increased sales volume. The Consumer Electronics segment incurred a gross margin loss in 1984 primarily as a result of high manufacturing and rework costs associated with *ADAM* and price reductions on products sold in 1983. Despite this loss, gross profit as a percent of sales increased to 35% from 32% in 1983 primarily as a result of increased sales of high margin *Cabbage Patch Kids* products.

Selling and administrative expenses increased by 2% to \$201.6 million. Advertising expenses declined in 1984 primarily as a result of a reduction in the promotion of electronics products. Extensive advertising of the *Cabbage Patch Kids* line was not required as it had remained in short supply since its introduction. Other selling, distribution and promotional costs relating to the Toy segment increased in 1984 over the previous year. Royalty expense increased by \$17.8 million in 1984 primarily as a result of the writeoff of certain prepaid royalty fees relating to electronics, whereas royalty income earned from the *Cabbage Patch Kids* license increased by approximately \$12.5 million in 1984. Selling and administrative expenses as a percent of sales decreased to 26% from 33% in 1983.

As a result of the significant increase in sales of *Cabbage Patch Kids* products, operating profit of the Toy segment in 1984 increased to \$208.6 million. The profitability of the Toy segment in 1984 was more than offset by the operating loss of \$140 million from the Consumer Electronics segment and a loss of \$118.6 million associated with the disposition of the *ADAM* product line (see Note 3 of the

Notes to Consolidated Financial Statements). In 1983, the operating profit from the Toy segment was \$17 million while the Consumer Electronics segment incurred an operating loss of \$22.3 million.

Interest expense increased from \$19.6 million to \$39.2 million, primarily as a result of higher average short-term borrowings and the convertible subordinated debentures issued in May and August, 1984. In addition, the average interest rate on short-term borrowings increased from 10.3% in 1983 to 13.1%.

As a result of the foregoing, the loss before income taxes increased from \$24.8 million to \$89.2 million in 1984. Due to a limitation on available tax loss carrybacks, the tax benefit in 1984 was only 11% of the loss. However, the tax benefit in 1983 was 70% of the loss, as substantially all available carryback benefits were utilized. The net loss for the year increased by \$72.4 million over 1983 to \$79.8 million.

Financial Condition and Liquidity

The Company's financial condition improved significantly in 1985 as a result of record earnings, proceeds of the convertible subordinated debenture offering (see Note 5 of the Notes to Consolidated Financial Statements) and utilization of the net operating loss and other tax credit carryforwards. At year-end, working capital was \$187.3 million, an increase of \$106 million during the year, and stockholders' equity was \$102.4 million, an increase of \$91.9 million. The Company had cash and equivalents of \$110.7 million and no short-term borrowings at December 31, 1985, compared with cash and equivalents of \$1.5 million and short-term borrowings of \$106 million at December 31, 1984.

Working capital provided by operations in 1985 was \$108.6 million. A substantial portion of the Company's profit was provided by the *Cabbage Patch Kids* product line. Additionally, the utilization of the operating loss and other tax credit carryforwards reduced income taxes by \$36 million which would have been otherwise payable on 1985 earnings. During 1983, 1984 and 1985, the Company had proceeds from issuance of long-term obligations of \$14.3 million, \$60.7 million and \$29.2 million, respectively. See the Consolidated Statement of Changes in Financial Position.

In addition, the Company improved its liquidity through substantial reductions in receivables and inventories which helped to repay all short-term debt outstanding and substantially increase cash balances. Gross accounts receivable decreased from

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

\$260.4 million to \$141.2 million in 1985 primarily as a result of increased cash collections and lower fourth quarter sales volume. Net accounts receivable at December 31, 1985 included \$15.8 million related to the *ADAM* and *ColecoVision* product lines which have been discontinued and are carried at their net realizable value. The balance of accounts receivable of \$84.5 million related to the Company's Toy product lines are net of allowances of approximately \$25 million. Accounts receivable allowances decreased from \$53.7 million in 1984 to \$40.9 million in 1985 primarily as a result of lower allowances required for Consumer Electronics receivables. Inventories decreased from \$86.5 million in 1984 to \$40.7 million in 1985, primarily due to the sale of *ADAM* and *ColecoVision* inventories.

The *Cabbage Patch Kids* product line is expected to continue to provide substantial profit and cash flow in 1986. While limited initial shipments of some of the new products will begin by the end of the first quarter of 1986, production at significant levels will not commence until the second quarter.

As a result of its improved financial condition, the Company is in a position to pursue additional opportunities for expansion and growth, both through accelerated internal product development and product line acquisitions. Such opportunities may be financed with both internally generated funds and external borrowings. In January 1986, the Company completed the acquisition of the common stock of Leisure Dynamics, Inc. in a cash transaction (see Note 2 of the Notes to Consolidated Financial Statements).

Capital expenditures are not expected to increase significantly over the 1985 level of \$14.6 million. The Company's product lines require modest levels of investment in capital equipment due to the fact that a significant portion of these items are produced by contract manufacturers.

In addition to its internally generated funds, the Company will have available external financing. As of March 3, 1986, the Company has reached agreements in principle with two banking groups respecting financing arrangements pursuant to which an aggregate of up to \$200 million would be

available to the Company through a combination of sales of receivables and borrowings under a revolving credit agreement. The Company's obligations under these financing arrangements would be secured by the Company's accounts receivable and inventory. These financing arrangements are dependent upon satisfactory completion of definitive documentation. At December 31, 1985, the Company's Canadian subsidiary had a \$25 million secured line of credit on which there were no outstanding borrowings.

The Board of Directors has approved the purchase by the Company of up to two million shares of its common stock, which may be made from time to time depending upon market conditions.

The Company expects that the internally generated funds and the available external financing will be sufficient to meet future requirements.

COMMON STOCK INFORMATION

The Company's common stock is listed on the New York and Toronto Stock Exchanges (trading symbol "CLO"). The following table sets forth the range of reported high and low sale prices of the stock on the New York Stock Exchange for the periods indicated:

		HIGH	LOW
1985	1st Quarter	15⁵/₈	10¹/₈
	2nd Quarter	17¹/₈	13³/₈
	3rd Quarter	19⁵/₈	16
	4th Quarter	21¹/₄	15³/₈
1984	1st Quarter	22 ¹ / ₈	10 ¹ / ₈
	2nd Quarter	16 ³ / ₄	11 ¹ / ₂
	3rd Quarter	16 ³ / ₄	9 ⁵ / ₈
	4th Quarter	19 ¹ / ₈	11 ³ / ₈

The number of registered holders of the Company's common stock as of February 14, 1986 was 9,540.

The Company has not paid any cash dividends on its stock since 1974.

EXECUTIVE OFFICERS

Arnold C. Greenberg
Chairman and Chief Executive Officer

J. Brian Clarke
President and Chief Operating Officer

Leonard E. Greenberg
Chairman of the Executive Committee

Philip Cohen
Executive Vice President — Corporate Affairs

Ray L. Eigenbrode
Executive Vice President — Product Operations

George V. Goudreau
Executive Vice President — Operations

Morton E. Handel
Executive Vice President — Corporate Development

Jeffrey S. Jacobson
Executive Vice President — Sales

Alfred R. Kahn
Executive Vice President — Toys

Michael S. Bauer
Senior Vice President — Sales

William F. Dohrmann III
Senior Vice President — Research and Development

Robert A. Jackman
Senior Vice President — Marketing

Paul C. Meyer
Senior Vice President — Far East Operations

Louis R. Novak
Senior Vice President — Product Operations

Bert L. Reiner
Senior Vice President — Quality Assurance

Daniel W. Robert
Senior Vice President — Information Services

Michael S. Schwefel
Senior Vice President and General Counsel

Jerry D. Wood
Senior Vice President — Creative Development

Steven D. Bartelstone
Vice President — Law; Secretary

Thomas P. Sande
Vice President — Controller

BOARD OF DIRECTORS

J. Brian Clarke

Mario J. Formichella³
Executive Consultant and Retired
Senior Partner of Arthur Young & Company

Arnold C. Greenberg¹

Leonard E. Greenberg

Mary Anne Krupsak^{2,3}
Attorney at Law
Albany, New York

Seymour M. Leslie^{2,3}
Chairman, President
and Chief Executive Officer
MGM/UA Home Entertainment Group, Inc.
New York, New York

Omer S.J. Williams^{1,3}
Attorney at Law, Partner
Thacher, Proffitt & Wood
New York, New York

¹Member of Nominating Committee

²Member of Human Resources Committee

³Member of Audit Committee

CHRISTOPHER W. CARRIUOLO

We mourn the loss on March 31, 1986 of our good friend Christopher W. Carriuolo, a member of Coleco's Board of Directors since 1973.

With an innovative spirit and unfailing good humor, he gave with unusual generosity of his time and friendship during his long tenure as a director. Deeply committed to helping the Company become a toy industry leader, he made himself continuously available to Coleco's management and was frequently consulted for the constructive advice and counsel which he so graciously offered.

We are deeply grateful for his meaningful contribution to Coleco's success and will greatly miss his guidance and steadfast support.

OPERATING EXECUTIVES

Coleco — United States Corporate Center

George Almond

Vice President — Engineering, Toys and Games

Marvin L. Belsky

Vice President — Product Operations, Support

Stanley T. Clutton

Vice President — Marketing

John J. Driska

Vice President — Product Engineering

James V. Gordon

Vice President — Creative Services

Harvey R. Johnson

Vice President — Marketing Services

Lawrence J. Karam

Vice President — Corporate Sourcing

John P. McNett

Vice President — Advanced Products

Robert Rao

Vice President — Marketing

Raymond H. Ringston

Vice President — Sales Planning

Judith A. Smith

Vice President — Customer and Sales Administration

William A. Spencer

Vice President — Operations Planning

Barbara C. Wruck

Vice President — Corporate Communications

Harvey H. Zelman

Vice President — Marketing

Manufacturing

Michael A. Appel

Vice President — Materials

Robert P. Baker

Vice President — Technical Services

Douglas P. Glaspie

Vice President — Manufacturing

Edmund M. Houlihan

Vice President — Operations Controller

Ralph R. Liguori

Vice President — Operations Control

Charles A. Malone

Vice President — Human Resources

Frederick R. O'Reilly

Vice President — West Coast Operations

Victor J. Ragusa

Vice President — Industrial Relations

Urban S. Reininger

Vice President — Distribution and Transportation

Sales

Marvin Berger

Vice President

Michael R. Kirsch

Vice President

Ralph Lancellotti

Vice President

Robert Rosenbaum

Vice President

Coleco Far East Ltd.

Paul C. Meyer

Managing Director

Coleco Europe

Graham E. Benison

General Manager

Lakeside Industries, Inc.

Robert A. Jackman

President and Chief Executive Officer

Louis R. Novak

Executive Vice President — Finance

George Almond

Senior Vice President — Operations

Robert Rao

Senior Vice President — Sales and Marketing

Coleco (Canada) Limited

Donald V. Taylor

President and Chief Operating Officer

Georges Dussault

Senior Vice President — Operations

Gene M. Florio

Senior Vice President and Chief Financial Officer

Denis Durnin

Vice President — Controller

Gerry Goldenberg

Vice President — Information Services

Bruce D. Morrow

Vice President — Sales

Michael F. Richards

Vice President — Marketing

Pierre Rouette

Vice President — Manufacturing

Pierre Tanguay

Vice President — Human Resources

M.U. (Rich) Tanner

Vice President — Materials Management

Peter Walder

Vice President — Distribution and
Sales Administration

TOM VAN DUYNHOVEN

We were deeply saddened by the death on February 3, 1986 of Tom van Duynhoven, President of Coleco (Canada) Limited.

Tom was a steadfast friend to many of us and an insightful leader whose enthusiasm and dedication were a source of inspiration to us all.

Tom capably led our Canadian organization through a challenging period in its growth and will long be remembered for the impact he had on the Company and its people, in Canada and throughout the Corporation.

FACILITIES

Corporate Headquarters

Coleco Corporate Center
999 Quaker Lane South
West Hartford, Connecticut 06110
(203) 725-6000

Company Sales Offices

New York

28 West 23rd Street
New York, New York 10010

Chicago

4825 North Scott
Schiller Park, Illinois 60176

Los Angeles

1231 Warner Avenue
Tustin, California 92680

New England

888 Washington Street
Dedham, Massachusetts 02026

Montreal

4000 St. Ambroise Street
Montreal, Quebec, Canada H4C 2C8

Toronto

5149 Bradco Boulevard
Mississauga, Ontario, Canada L4W 2A6

Manufacturing Facilities and Distribution Centers

21 West Main Street
Mayfield, New York 12117

Coleco Park
Mayfield, New York 12117

80 Lincoln Street
Gloversville, New York 12078

2 Park Street
Amsterdam, New York 12010

10 Park Street
Amsterdam, New York 12010

50 Park Street
Amsterdam, New York 12010

37 Prospect Street
Amsterdam, New York 12010

31-35 Willow Street
Amsterdam, New York 12010

50 Willow Street
Amsterdam, New York 12010

Corporation Park
Scotia, New York 12302

1231 Warner Avenue
Tustin, California 92680

4000 St. Ambroise Street
Montreal, Quebec, Canada H4C 2C8

Subsidiaries

Coleco (Canada) Limited
4000 St. Ambroise Street
Montreal, Quebec, Canada H4C 2C8

Coleco Far East Limited
11th Floor Austin Tower
22-26A Austin Avenue
Kowloon, Hong Kong

Coleco, S.A.
Rue de Romont 24
Fribourg, Switzerland

Coleco U.K., Inc.
2 Cofferridge Close
Stony Stratford
Milton Keynes
MK11 1BY England

Lakeside Industries, Inc.
4400 West 78th Street
Minneapolis, Minnesota 55435

Transfer Agent and Registrar

Manufacturers Hanover Trust Company
450 West 33rd Street
New York, New York 10001

Independent Certified Public Accountants

Coopers & Lybrand
280 Trumbull Street
Hartford, Connecticut 06103

Stock Exchange Listings

The Company's Common Stock is listed on the New York Stock Exchange and the Toronto Stock Exchange. Ticker Symbol: CLO

Stockholders may obtain a copy of the Company's 1985 Annual Report on Form 10-K filed with the Securities and Exchange Commission by writing to Barbara C. Wruck
Vice President — Corporate Communications
Coleco Industries, Inc.
Coleco Corporate Center
999 Quaker Lane South
West Hartford, Connecticut 06110

COLECO INDUSTRIES, INC.

Coleco Corporate Center
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