

V.I.M.COR
BUY RECOMMENDATION

NOODLE KIDOODLE NKID \$ 4.375 SPECIAL SITUATION/GROWTH

52 WK PRICE RANGE	DIV	YIELD	EPS				AVERAGE DAILY VOLUME MILL \$
			1997	LATEST 12 MO	1998	1999	
\$2.75-6.50	\$ 0.00	0.00 %	\$-1.00	\$ -0.25	\$ 0.24	\$ 0.55	\$ 0.3735
		P/E :	41.5 x	23.3 x	16.6 x	13.1 x	

EPS COMPOUND GROWTH RATE

VAL MODEL	P/E LEAST GROWTH RT	PAST 5 YRS.	LATEST QUARTER	THIS YEAR	NEXT YEAR	NEXT 5 YRS.
145.0 %	NA x	NA%	400.0 %	110 %	129.0 %	12.0 %

BASIS OF RECOMMENDATION

NKID is a specialty retailer that is taking advantage of the current parenting trends of purchasing educational, non-violent toys. I believe that this market is under served, with the major competition being privately held Zainy Brainy. NKID is experiencing strong sales growth, and just becoming profitable. As the company grows, it will eventually become noticed by large institutional investors, and they will drive the price up. Current price target is \$10 in the near term, and \$14 in 1999.

POSITIVES

- * Niche retailer in a growing market segment.
- * Strong history of sales growth.

NEGATIVES

- * Strong competitor, Zainy Brainy, that has access to more capital resources.
- * Volatile earnings and stock price.

ANALYST	DATE OF STOCK PRICE	SPX PRICE THAT DATE	DATE OF THIS REPORT
Gary Vassalotti	10/28/98	\$ 1098.67	10/29/98

NOODLE KIDOODLE

Noodle Kidoodle, Inc. is a specialty retailer of a broad assortment of educationally oriented, creative and non-violent children's products. The Company operated 32 stores as of 1/31/98. For the 26 weeks ended 8/1/98, net sales increased 25% to \$36.5 million. Net loss decreased 45% to \$2.6 million. Revenues reflect the addition of new stores, and higher comparable store sales. Lower loss also reflects a higher gross profit due to lower merchandise and buying costs.

NKID is re-entering a growth phase. Management had slowed expansion during 1998 due to losses and higher inventory management costs. These issues have been ironed out, and the company is on track to open 10 new stores in 1999. The return of new store openings bodes well for this small retailer, as institutional investors will be watching for the company to reach a critical sales mass.

Net sales increased a total of 37.5% to \$81.7 million in Fiscal 98 from \$59.4 million in Fiscal 1997. Noodle Kidoodle sales increased \$23.8 million or 41.2% to \$81.5 million in Fiscal 1998 from \$57.7 million in the prior year, primarily due to increased comparable store sales of 16%, the addition of one store during Fiscal 1998 and thirteen stores during Fiscal 1997.

The sales and earnings growth continued into the quarter ended August 1, 1998. Net sales increased a total of 34.3% to \$18.4 million in the thirteen week period from \$13.7 million in the comparable period in the prior year. Sales in Noodle Kidoodle stores increased 35.3% to \$18.4 million in the second quarter from \$13.6 million in the comparable period in the prior year, primarily due to increases in comparable store sales of 25% and the addition of four new stores in the second quarter and one new store in the first quarter of fiscal 1999. The Company had 32 comparable stores at August 1, 1998.

Net loss decreased 44.4% to \$1.5 million (\$0.20 per share) for the thirteen week period ended August 1, 1998 from \$2.7 million (\$0.36 per share) in the comparable period in the prior year. The net loss for both periods ended August 1, 1998 and August 2, 1997 did not include tax benefits.

New store openings will slow reported EPS, but will result in faster EPS growth in the long run.

MANAGEMENT DISCUSSION HIGHLIGHTS FROM THE NKID 10K DATED 4/29/98....

The Company's stores range from approximately 6,100 to 13,300 square feet and average approximately 10,500 square feet. Each store offers customers a warm and inviting shopping environment with brightly lit spaces, colorful walls, ceilings and carpets, wide aisles for strollers and kid-level seating and product shelving. Each store typically carries approximately 20,000 stock-keeping units ("SKU's"), conveniently displayed in separate merchandise departments, such as "Science & Nature" and "Arts & Crafts", which are identified by eye-catching signs that are visual as well as verbal so that children can understand them. All of the products carried in Noodle Kidoodle stores conform to the Company's creative, non-violent and educational merchandising strategy. The Company generally does not carry mass market television advertised toys. However, in certain product categories, the Company does carry brand name products which fit the Noodle Kidoodle philosophy, such as Crayola, Lego, Playmobil, Mattel, the full line of Walt Disney video titles and the Goosebumps line of books. The Company purchases merchandise from over 550 suppliers. There is currently one supplier, Ty, Inc., which represents slightly more than 9% of total purchases.

The Company operated 32 Noodle Kidoodle stores at the end of its 1998 fiscal year, located in New York, New Jersey, Connecticut and the Boston, Chicago and Detroit metropolitan areas. It has opened one store in fiscal 1999 in the Detroit metropolitan area and expects to open at least five additional stores during the year. As of April 20, 1998, the Company has signed six leases for new store locations. Five are scheduled to open this year and one next year. The Company plans to open stores in Dallas and Plano, TX in the Spring of 1998, in Austin, TX and Boca Raton, FL in the summer of 1998 and in Hartsdale, NY in the Fall of 1998. A store in Southlake, TX is scheduled to open in 1999. The Company believes that there are opportunities for nationwide expansion over the longer term.

The Company believes that the following elements are important to its retailing concept:

Interactive Shopping Environment - Each Noodle Kidoodle store is designed with children in mind. Each store has designated play areas where children and their parents are encouraged to explore toys and games in keeping with the Company's "try before you buy" philosophy. Among the key interactive features of each store are the Computer Center, "Kidoodle Theater" and the Electronic Learning Center.

Broad Assortment of Imaginative Products - Noodle Kidoodle stores offer a broad assortment of products designed to stimulate a child's imagination and contribute to his or her growth and development, consistent with the Company's slogan

that "Kids learn best when they're having fun." To keep its merchandise mix fresh and exciting, the Company continually seeks innovative new products.

In-Store Events - The Company provides without charge frequent in-store events such as personal appearances by authors and children's television personalities, arts and crafts workshops and readings from selected books to provide entertainment to its customers, increase store traffic and position Noodle Kidoodle as a destination store.

Superior Customer Service - By providing knowledgeable and friendly customer service and selecting enthusiastic employees who enjoy working with children, the Company believes that it has a competitive advantage over lower-service superstores and mass merchandisers.

Targeted Marketing - The Company conducts a targeted direct mail marketing program and continuously updates its customer database for this purpose.

Competitive Pricing - Noodle Kidoodle offers everyday competitive pricing. Many products are regularly discounted and prices in general are believed to be competitive with those featured by superstores carrying similar lines of merchandise.

Retailing of children's educational products is a relatively new concept. Included among the Company's direct competitors are Zany Brainy, Learningsmith, Store of Knowledge, Learning Express and Imaginarium.

POSITIVE MANAGEMENT SUPPORT

Management sentiment is reflected in the majority of buy transactions shown in the chart below:

Insider Trades - Noodle Kidoodle Inc (Nasdaq:NKID)					Updated: 19-Nov-98	
Date	Name	Action	Shares	Type	Price	Value
8-Oct-98	BETUKER KENNETH S	Bought (P)	2,000	Common	3.75	\$7,500
7-Oct-98	BETUKER KENNETH S	Bought (P)	3,000	Common	3.75	\$11,250
2-Sep-98	MADENBERG JOSEPH A	Bought (P)	3,000	Common	3.75 - 3.88	\$11,445
6-Jul-98	STOKVIS ROBERT	Exercised (M)	2,500	Common	4.81	-
1-Jul-98	FARKAS ROBIN L	Exercised (M)	5,000	Common	4.81	-
31-Dec-97	STOKVIS ROBERT	Bought (P)	1,500	Common	3.69	\$5,535
17-Dec-97	GREENMAN STANLEY	Gave as Gift	1,076	Common	-	-
15-Dec-97	STOKVIS ROBERT	Bought (P)	2,000	Common	3.50	\$7,000
10-Dec-97	STOKVIS ROBERT	Bought (P)	2,000	Common	3.75	\$7,500
8-Dec-97	STOKVIS ROBERT	Bought (P)	1,000	Common	3.13	\$3,130
5-Dec-97	STOKVIS ROBERT	Bought (P)	1,000	Common	3.06	\$3,060

				on		
1-Dec-97	KATZ STEWART	Bought (P)	25,000	Common	3.13	\$78,250
1-Dec-97	GREENMAN LESTER	Bought (P)	25,000	Common	3.13	\$78,250
1-Dec-97	GREENMAN STANLEY	Bought (P)	25,000	Common	3.13	\$78,250

(i) indicates [indirect holdings](#)

Pros:

- Strong same-store sales growth.
- Growth plans have been re-started after distribution problems were corrected.
- High projected return.

Cons:

- Small cap stock with inherent stock price volatility (although the stock sports a beta of only 0.92).
- Only one major broker (Paine Webber) currently follows the stock...Institutional support may be lacking in the short term.
- Management 'comes across' as boring, or 'out of touch', but they seem to be getting the job done. Investor support may be light until they start 'talking the company up' more in their conversations and interviews.