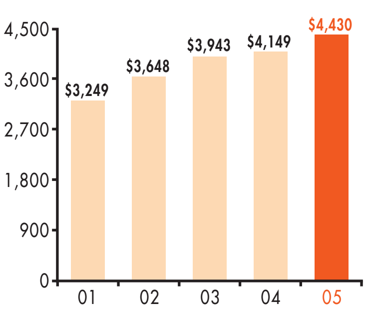
Big Lots, Inc. 2005 Annual Report

about our company

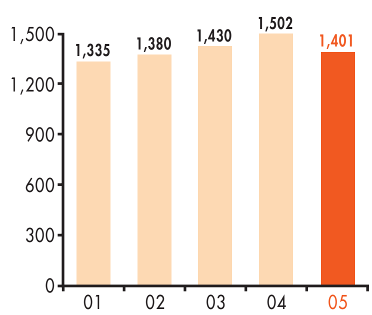
Headquartered in Columbus, Ohio, Big Lots (NYSE: BLI) is a Fortune 500 company with over 1,400 stores nationwide. For more than three decades, we've delighted our customers with a vibrant mix of exciting brands, unique products, and closeout prices. Big Lots offers new merchandise every week at substantial savings over traditional discount retailers, on average 20 to 40 percent less. Our customers love our unexpected, once-in-a-lifetime deals. We also carry attractive, affordable furniture, home furnishings, seasonal merchandise, and hundreds of everyday items consumers want and need. Through excellent relationships with manufacturers, high-volume purchases, and strict expense control, we pass tremendous savings on to our customers.

financial highlights (UNAUDITED ADJUSTED RESULTS)

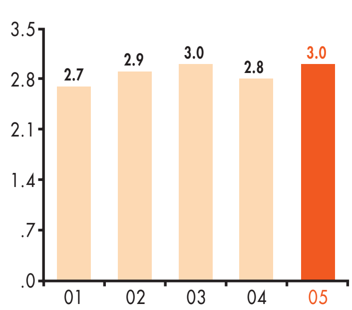
($ in thousands, except per share amounts and sales per selling square foot)	2005	2004	2003	2002	2001
			Fiscal Year		
EARNINGS DATA *(a)*					
Net sales	$ 4,429,905	$ 4,149,252	$ 3,942,653	$ 3,647,771	$ 3,248,622
Net sales increase *(b)*	6.8%	5.2%	8.1%	12.3%	NR
Income from continuing operations *(c)*	$ 15,725	$ 31,432	$ 81,073	$ 68,281	$ 26,614
Income from continuing operations increase (decrease) *(b) (c)*	(50.0)%	(61.2)%	18.7%	156.6%	NR
Income from continuing operations per share - diluted *(c)*	$ 0.14	$ 0.27	$ 0.68	$ 0.59	$ 0.23
Income from continuing operations per share - diluted increase (decrease) *(b) (c)*	(48.1)%	(60.3)%	15.3%	156.5%	NR
Average diluted common shares outstanding	113,677	114,801	117,253	116,707	113,660
Gross margin - % of net sales *(c)*	39.1%	40.7%	41.9%	42.2%	40.8%
Selling and administrative expenses - % of net sales *(c)*	36.0%	36.6%	36.0%	36.3%	36.8%
Depreciation expense - % of net sales *(c)*	2.5%	2.4%	2.3%	2.2%	2.1%
Operating profit - % of net sales *(c)*	0.6%	1.7%	3.6%	3.6%	1.9%
Net interest expense - % of net sales	0.1%	0.6%	0.4%	0.6%	0.6%
Income from continuing operations - % of net sales *(c)*	0.4%	0.8%	2.1%	1.9%	0.8%
BALANCE SHEET DATA AND FINANCIAL RATIOS					
Cash equivalents and short-term investments	$ –	$ –	$ 170,300	$ 143,815	$ 17,500
Inventories	836,092	895,016	829,569	776,210	705,293
Property and equipment - net	584,083	648,741	621,998	548,103	527,011
Total assets	1,625,497	1,733,584	1,800,543	1,655,571	1,470,281
Long-term obligations	5,500	159,200	204,000	204,000	204,000
Shareholders' equity	1,078,724	1,075,490	1,108,779	1,020,088	922,533
Working capital	557,231	622,269	718,620	654,626	555,719
Net debt *(d)*	$ 5,500	$ 159,200	$ 33,700	$ 60,185	$ 186,500
Current ratio	2.3	2.5	2.7	2.7	2.8
Inventory turnover *(e)*	3.0	2.8	3.0	2.9	2.7
Long-term obligations to total capitalization	0.5%	12.9%	15.5%	16.7%	18.1%
Return on assets - continuing operations *(a) (c)*	0.9%	1.8%	4.7%	4.4%	1.8%
Return on shareholders' equity - continuing operations *(a) (c)*	1.5%	2.9%	7.6%	7.0%	2.9%
CASH FLOW DATA					
Depreciation and amortization	$ 114,617	$ 101,917	$ 92,407	$ 85,840	$ 69,935
Capital expenditures	$ 68,503	$ 135,291	$ 170,175	$ 110,110	$ 113,387
STORE DATA					
Stores open at end of the fiscal year	1,401	1,502	1,430	1,380	1,335
Gross square footage (000's)	41,413	42,975	40,040	37,882	35,528
Selling square footage (000's)	29,856	30,943	29,019	27,593	26,020
Increase (decrease) in selling square footage	(3.5)%	6.6%	5.2%	6.0%	5.6%
Average selling square footage per store	21,310	20,601	20,293	19,995	19,491
OTHER SALES DATA					
Comparable store sales growth	1.8%	0.0%	3.4%	7.7%	2.0%
Average sales per store *(f)*	$ 3,028	$ 2,951	$ 2,932	$ 2,809	$ 2,582
Sales per selling square foot *(f)*	$ 146	$ 144	$ 146	$ 142	$ 134



net sales *(a)* $ in millions



number of stores



inventory turnover (adjusted results *(e)*)

(a) Earnings data and related financial ratios have been adjusted to reflect the reclassification of 130 closed stores to discontinued operations for all periods presented. For information relating to the 130 closed stores, refer to the Discontinued Operations Note to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for fiscal year 2005.
(b) Comparable metrics to fiscal year 2000 are not reported ("NR") because the Company did not report the results of fiscal year 2000 with the results of the 130 closed stores reported in discontinued operations.
(c) This item is shown excluding the impact of charges for fiscal years 2003 and 2001. A reconciliation of the differences between GAAP and the non-GAAP financial measures presented in this table for fiscal years 2003 and 2001 is shown on the following page.
(d) Net debt is calculated as long-term obligations less cash equivalents and short-term investments.
(e) Inventory turnover includes the results of the 130 closed stores reported in discontinued operations for all periods presented and excludes the impact of the fiscal year 2001 charge described on the following page.
(f) Excludes wholesale business for periods presented, and includes the 130 closed stores reported in discontinued operations for all periods presented.

The Unaudited Adjusted Results, which include financial measures that are not calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"), are presented in order to improve comparability of financial information for periods presented. The following information and reconciliation exclude charges related to fiscal years 2003 and 2001, as described below.

	Fiscal Year **2003**					Fiscal Year **2001**				
($ in thousands, except per share amounts)	Reported (GAAP)		Adjustments	Unaudited Adjusted Results (non-GAAP)		Reported (GAAP)		Adjustments	Unaudited Adjusted Results (non-GAAP)	
Net sales	$ 3,942,653	100.0 %	$ –	$ 3,942,653	100.0 %	$ 3,248,622	100.0 %	$ –	$ 3,248,622	100.0 %
Cost of sales	2,292,123	58.1	–	2,292,123	58.1	1,983,959	61.1	(62,439)	1,921,520	59.2
Gross margin	1,650,530	41.9	–	1,650,530	41.9	1,264,663	38.9	62,439	1,327,102	40.8
Selling and administrative expenses	1,439,444	36.5	(18,698)	1,420,746	36.0	1,229,085	37.8	(34,888)	1,194,197	36.8
Depreciation expense	88,960	2.3	–	88,960	2.3	68,683	2.1	–	68,683	2.1
Operating profit (loss)	122,126	3.1	18,698	140,824	3.6	(33,105)	(1.0)	97,327	64,222	1.9
Interest expense	16,443	0.4	–	16,443	0.4	20,489	0.6	–	20,489	0.6
Interest income	(1,061)	(0.0)	–	(1,061)	(0.0)	(287)	(0.0)	–	(287)	(0.0)
Income (loss) from continuing operations before income taxes	106,744	2.7	18,698	125,442	3.2	(53,307)	(1.6)	97,327	44,020	1.3
Income tax expense (benefit)	20,833	0.5	23,536	44,369	1.1	(21,038)	(0.6)	38,444	17,406	0.5
Income (loss) from continuing operations	85,911	2.2	(4,838)	81,073	2.1	(32,269)	(1.0)	58,883	26,614	0.8
Income (loss) from discontinued operations	(5,691)	(0.2)	9,720	4,029	0.1	11,287	0.4	(8,480)	2,807	0.1
Net income (loss)	$ 80,220	2.0%	$ 4,882	$ 85,102	2.2%	$ (20,982)	(0.6)%	$ 50,403	$ 29,421	0.9 %
Income (loss) per common share - basic:										
Continuing operations	$ 0.74		$ (0.04)	$ 0.70		$ (0.28)		$ 0.52	$ 0.24	
Discontinued operations	(0.05)		0.08	0.03		0.10		(0.07)	0.03	
	$ 0.69		$ 0.04	$ 0.73		$ (0.18)		$ 0.45	$ 0.27	
Income (loss) per common share - diluted:										
Continuing operations	$ 0.73		$ (0.05)	$ 0.68		$ (0.28)		$ 0.51	$ 0.23	
Discontinued operations	(0.05)		0.09	0.04		0.10		(0.07)	0.03	
	$ 0.68		$ 0.04	$ 0.72		$ (0.18)		$ 0.44	$ 0.26	

For a discussion of defined terms, refer to the Company's Annual Report on Form 10-K for fiscal year 2005 ("2005 Form 10-K"). The 2005 Form 10-K is included in this Annual Report to Shareholders.

FISCAL YEAR 2003 CHARGE

In fiscal year 2003, the Company recorded charges related to KB Toys matters and litigation of $4.9 million (net of tax), or $0.04 per diluted share. The KB Toys charge resulted primarily from KB's bankruptcy filing on January 14, 2004, and represented: a) a $14.3 million (net of tax) charge related to KB store lease guarantee obligations; b) a $10.6 million (net of tax) benefit related to the partial charge-off of the HCC Note and the write-off of the KB warrant; and c) a $5.8 million (net of tax) benefit related to the resolution and closure of KB state and local tax matters. In another KB matter unrelated to the bankruptcy proceedings, a litigation charge of $1.2 million (net of tax) was recorded relating to certain advertising practices of KB Toys. Unrelated to KB Toys, the Company also recorded a $5.7 million (net of tax) charge to settle the Company's two California class action lawsuits relating to the calculation of earned overtime wages for certain former and current store managers and assistant store managers in that state.

FISCAL YEAR 2001 CHARGE

In fiscal year 2001, the Company recorded a charge of $50.4 million (net of tax), or $0.44 per diluted share. The charge represented: a) costs to modify the Company's product assortment and exit certain merchandise categories ($6.1 million net of tax); b) adjustments to the estimated capitalized freight costs related to inbound imported inventories in response to better systems and information ($15.0 million net of tax); c) adjustments to inventory-related costs that were identified as a result of the completion of a significant multiyear conversion to a detailed stock-keeping unit inventory management system ($16.7 million net of tax); and d) changes in estimates and estimating methodology related to insurance reserves ($12.6 million net of tax).

The Unaudited Adjusted Results should not be construed as an alternative to the reported results determined in accordance with GAAP. Further, the Company's definition of adjusted income information may differ from similarly titled measures used by other companies. While it is not possible to predict future results, management believes the adjusted non-GAAP information is useful for the assessment of the Company's ongoing operations. The Unaudited Adjusted Results should be read in conjunction with the Company's Consolidated Financial Statements and Notes contained in the 2005 Form 10-K.

chairman's letter

STEVEN S. FISHMAN
Chairman, Chief Executive Officer, President

Dear Shareholders:

Let me begin by expressing how proud I am to be the new CEO of Big Lots. I joined the company in July 2005. During my first few weeks on the job, I spent a great deal of time learning and listening — not unusual activities for a new CEO. I also talked with hundreds of associates, company leaders, and customers during planning sessions and store visits.

What's been clear to me from the beginning is that we have talented people and a strong niche in the retail marketplace. At the same time, we also have an incredible opportunity to transform Big Lots from a good company to a truly great one.

We deliberately set out looking at our business in new ways, challenging our assumptions about how we operate and what our customers expect. As I often remind our associates, retail constantly changes, and that's the fun part about this business. We always have to challenge ourselves to make changes in order to improve our results and drive shareholder value. And a new CEO — especially an optimistic one — can embrace change with an open mind.

WIN

In August we launched a new strategy called WIN, or What's Important Now. WIN involves tactical plans to improve the financial performance of the business in the short and long term. Throughout 2005, development of the WIN strategy focused the leaders of the business on three key areas: *operating expenses, real estate,* and *merchandising*.

The strategy involves three steps: Discovery, Testing, and Execution. We went through Discovery during my first six months. As a result of what we learned, we began doing some things differently. The following provides an overview of our actions involving our expense structure, real estate, and merchandising.

Operating expenses

Our overhead costs in relation to our sales were simply too high. It was critical for the future success of the business that we quickly reduce our cost structure. We began taking action in October and have already identified annual expense reductions of $30 to $35 million. We've cut millions of dollars from our budget in corporate overhead expenses. We reorganized our field operations structure, realigned positions to eliminate management redundancies, and are reducing the number of tasks and related payroll we are spending in our stores.

Real estate

Like every retailer, we constantly review the performance of our stores. Historically, we have closed or relocated approximately 30 to 40 stores per year. However, as part of our WIN strategy and in light of softening sales trends in 2004 and early 2005, we decided to perform a detailed review of every store in our fleet. As a result of our analysis, we accelerated the closing of an additional 85 closeout stores, bringing our total number of closeout store closings to 131 for the year. This was a very proactive move to improve the long-term fitness of our business without compromising our solid cash position. In addition to closing the 131 closeout stores, we made a decision to exit the stand-alone furniture business. While I love the furniture business, I do not have the same affection for the stand-alone furniture stores. We have a greater opportunity to improve sales in furniture departments within our closeout stores while reducing the operating expenses and the inventory committed to operating a stand-alone furniture business. In total, we closed 174 stores during 2005, which will improve our profitability in 2006 and beyond.

New store openings for the company have historically been very opportunistic, spreading across all parts of the country. Starting with 2006, we will implement a more market-specific strategy, opening stores selectively and tailoring the expense structure to match the market potential. As a result, new store growth will be minimal as we focus on our prime obsession: boosting sales and profits at existing stores.

Merchandising

One of the greatest challenges we have before us is to define and refine our merchandising strategy. I admit that merchandising has been my passion for many years. I started out as a merchant, and I often accompany our buyers on trips to market and at trade shows. Our business plan for 2006 begins with the same objective we start with every year — providing our customers with incredible brand-name deals at prices nobody can beat. Simultaneously, we will work hard to grow our profit margins by focusing on opportunities to improve our assortment, sales, productivity, and marketing.

The process to refine our merchandising strategy began with extensive research. During our Discovery phase, we studied current successes, received input from store managers and company leaders, and interviewed over 20,000 Big Lots customers.

We learned that Big Lots appeals to an extremely wide range of cost-conscious consumers. The majority of those surveyed have household incomes between $25,000 and $75,000, are married, and have children. About a third of them shop us at least once a month. But no matter their age, race, or income level, they all have one thing in common: They're treasure hunters.

To our customers, Big Lots represents a unique opportunity to indulge their inner treasure hunter. It doesn't matter if they're looking for bottled water or a bedroom suite – it's the thrill of finding brand-name merchandise that's Stupid Cheap.™

REINVENTING CLOSEOUTS

We're aggressively pursuing new ideas and business relationships that will help us deliver even more of the great deals our customers know and love. Based on our research, we've launched the following key merchandising initiatives:

Buzz builders, basket builders, must-haves On average, our customers spend about $18 a trip. We have challenged ourselves to develop strategies to capture a greater share of our existing customers' wallet or weekly spend. To achieve this goal, we are looking to build the value of the average basket through three specific merchandise categories: *buzz builders, basket builders, and must-haves*. *Buzz builders* are the WOW items that create excitement — the ones customers brag to their friends about (our famous-maker jeans at ridiculously low prices are a good example). These are primarily closeouts and once-in-a-lifetime deals. *Basket builders* are impulse items that increase the average sale, such as seasonal merchandise and snacks. And last, *must-haves* are frequently purchased items we should always have in stock, such as pens, paper towels, and tissues. The brand may vary, but we'll always offer a great deal.

Raise the ring This is another merchandising and pricing strategy aimed at increasing the value of our average basket. We'll study the value of low-ticket items to our selling mix. In some categories, we'll experiment with larger package sizes that can generate a slightly higher average ticket.

Engineered closeouts and captive labels Closeouts will always be the biggest part of our business. Often we acquire closeouts through package changes, canceled orders, discontinued items, or manufacturer overruns. But many manufacturers have the ability to engineer closeouts just for Big Lots. We're building relationships with major manufacturers to help us bring even more brand-name deals to our customers. In January 2006, we held our first Big Lots Business Summit with over 100 executives from many of the nation's leading companies to explore unique options we have for working together.

We're also starting to carry captive label brands, such as our Rival® dog food. Rival was a brand-name dog food made many years ago, and we control the rights to the name. The prospects for expanding our engineered closeout and private label programs are very promising, and we hope to have more to report on this front in the coming year.

A SELLING ORGANIZATION

In the past, our approach has been, *If you buy it, they will come*. Today our priorities are different. It's not enough to focus solely on the buy-side of closeouts. We are directing our energy on being a buying *and* selling organization. Going forward, every great "buy" will have multiple selling mechanisms — a mixture of in-store, online, and multimedia marketing that will communicate great value instantaneously.

Brand Names. Closeout Prices.® That's our mantra. We will convey this message at every sales touch-point. Our marketing activities will address print and broadcast advertising and, most important, the in-store experience. Our research shows that the majority of our customers come into Big Lots with no specific item in mind. They're shopping *just for the treasure hunt*. That means how we market inside our stores, how we present, and how well we execute across all merchandise categories will be critical to growing our business. We'll experiment with signage, color, and clearer sight lines to help customers navigate the store and locate our great bargains. In February 2006, we launched a laboratory store to test a number of new marketing concepts and merchandise presentations. Our print circulars are undergoing a makeover too, and we'll be tracking the distribution and effectiveness of our print advertising with a fresh eye. Also look for new TV commercials.

FULL STEAM AHEAD

Our team enters 2006 with incredible momentum. Our accomplishments are a testimony to the efforts of our 44,000 associates who accepted the challenge to pick up the pace. Business is everything but usual, and we are not afraid of change. In retail, it's a necessity. We are literally changing the way closeouts are done. We're not waiting for vendors to call us. We're making decisions about the merchandise we want to carry — how we want to buy it, price it, market it, and distribute it efficiently. Every detail of our plan is designed to help us become a selling machine.

Testing of our strategies is already underway in a group of stores across the country and will continue through 2006. Our testing phase gives all of us a chance to see strategy in action. Some of our ideas will be home runs. Others may miss the mark, and frankly, that's a good thing. If you never make a mistake, that means you're not trying something new, different, and exciting.

Exciting things are clearly happening — new directions, new marketing, and new horizons of opportunity that make now the best time to be at Big Lots. The results of our testing in 2006 will lay the groundwork for refining our strategies and executing our successes in 2007. We will focus on the elements that are easily adaptable to our existing store prototypes and roll them out efficiently and cost-effectively.

WOW is the endgame. We like to call it the closeout moment. It's not always easy getting there. It takes exceptional people with unrelenting determination and the drive to perform.

I believe in the Big Lots team. There will always be external forces that can impact our bottom line, from the national economy to intense competition and even weather. But there is one force that is more powerful, and that force is us. How we manage, how we work, how we look out for each other — these are the factors that will help separate a great company from the rest of the pack.

Our niche as the nation's most dominant broadline closeout retailer is one of our most important assets. We are not a dollar store, and we are not a discount store. We are a company unlike any other, that goes where few other retailers can follow. And we are committed to working together to make our company bigger, better, and stronger in returning shareholder value.

Thank you for your support and confidence as we look forward to a great year.

Sincerely,

Steve Fishman
Chairman, CEO, and President

directors and executives

BOARD OF DIRECTORS

Sheldon M. Berman
Chairman, Chief Executive Officer & President
Xtreem Creative, Inc.

Steven S. Fishman
Chairman, Chief Executive Officer & President
Big Lots, Inc.

David T. Kollat
President & Founder
22, Inc.

Brenda J. Lauderback
former President – Wholesale Group
Nine West Group, Inc.

Philip E. Mallott
former Vice President & Chief Financial Officer
Intimate Brands, Inc.

Ned Mansour
former President
Mattel, Inc.

Russell Solt
former Executive Vice President & Chief Financial Officer
West Marine, Inc.

James R. Tener
President & Chief Operating Officer
Brook Mays Music Group

Dennis B. Tishkoff
Chairman & Chief Executive Officer
Drew Shoe Corporation

COMPANY EXECUTIVES

CHAIRMAN, CHIEF EXECUTIVE OFFICER & PRESIDENT

Steven S. Fishman

EXECUTIVE VICE PRESIDENTS

John C. Martin
Merchandising

Donald A. Mierzwa
Store Operations

Brad A. Waite
Human Resources, Loss Prevention, Real Estate & Risk Management

SENIOR VICE PRESIDENTS

Lisa M. Bachmann
Information Technology/ Merchandise Planning & Allocation

Robert C. Claxton
Marketing

Joe R. Cooper
Chief Financial Officer

Charles W. Haubiel II
General Counsel & Corporate Secretary

Kent Larsson
Special Projects

Norman J. Rankin
General Merchandise Manager

Harold A. Wilson
Distribution & Transportation Services

VICE PRESIDENTS

Timothy C. Anderson
Store Control

Armen Bahadurian
Wholesale Merchandise Manager

Loyd R. Barron
Store Operations

William Coney
Store Operations

Kevin R. Day
Real Estate

Charles Ellis
Imports

Roger D. Erwin
Store Operations

Richard L. Fannin
Technology & Data Center Services

Charles C. Freidenberg
Divisional Merchandise Manager

Mollie M. Hall
Store Operations

VICE PRESIDENTS (Continued)

Craig A. Hart
Merchandise Planning

Charles H. Howze
Store Operations

Gary E. Huber
Store Projects

Kathleen R. Hupper
Real Estate Administration

Timothy A. Johnson
Strategic Planning & Investor Relations

Kathryn A. Keane
Transportation Services

Stephen B. Marcus
Wholesale

Seth L. Marks
Big Lots Capital

Richard J. Marsan, Jr.
Merchandise Presentation

Todd A. Noethen
Distribution Support Services

Judith A. Panoff
Divisional Merchandise Manager

Jo L. Roney
Human Resources Services

Shelley L. Rubin
Advertising

Michael A. Schlonsky
Associate Relations & Risk Management

Paul A. Schroeder
Controller

Robert Segal
Divisional Merchandise Manager

Steven R. Smart
Divisional Merchandise Manager

Sharon A. Smith
Allocation

Wayne W. Stockton
Divisional Merchandise Manager

L. Michael Watts
Tax

Crystal L. Weary
Divisional Merchandise Manager

Stewart Wenerstrom
Merchandise Support

Gregory W. Wilmer
Information Technology Development

Kevin R. Wolfe
Loss Prevention

Big Lots, Inc.
300 Phillipi Road
Columbus, Ohio 43228

April 19, 2006

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Big Lots, Inc., which will be held at the Company's corporate office located at 300 Phillipi Road, Columbus, Ohio, on Thursday, May 25, 2006, beginning at 9:00 a.m. EDT.

The following pages contain the formal Notice of Annual Meeting of Shareholders and the Proxy Statement. You should review this material for information concerning the business to be conducted at the Annual Meeting of Shareholders.

Your vote is important. Whether or not you plan to attend the Annual Meeting of Shareholders, you are urged to complete, date and sign the enclosed proxy card and return it in the enclosed envelope. If you attend the Annual Meeting of Shareholders, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy.

On behalf of the Board of Directors, we would like to express our appreciation for your continued interest in the affairs of the Company.

STEVEN S. FISHMAN
Chairman,
Chief Executive Officer and President

Big Lots, Inc.
300 Phillipi Road
Columbus, Ohio 43228

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 25, 2006

Notice is hereby given that the Annual Meeting of Shareholders of Big Lots, Inc. will be held at the Company's corporate office located at 300 Phillipi Road, Columbus, Ohio, on Thursday, May 25, 2006, beginning at 9:00 a.m. EDT. At the meeting, the holders of the Company's outstanding common shares will act on the following matters:

1. The election of nine directors of the Company;
2. The approval of the Big Lots 2006 Bonus Plan, in the form attached hereto as Appendix I; and
3. The transaction of such other business as may properly come before the meeting.

Only shareholders of record at the close of business on March 27, 2006, are entitled to notice of and to vote at the Annual Meeting of Shareholders and any postponements or adjournment thereof.

By Order of the Board of Directors,

CHARLES W. HAUBIEL II
Senior Vice President, General Counsel
and Corporate Secretary

April 19, 2006
Columbus, Ohio

Your vote is important. Shareholders are urged to complete, date and sign the enclosed proxy card and return it in the enclosed envelope to which no postage need be affixed if mailed in the United States. If you attend the Annual Meeting of Shareholders, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy.

BIG LOTS, INC.

PROXY STATEMENT

TABLE OF CONTENTS

Big Lots, Inc.
300 Phillipi Road
Columbus, Ohio 43228

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the "Board") of Big Lots, Inc., an Ohio corporation (the "Company"), for use at the Annual Meeting of Shareholders (the "Annual Meeting") to be held on May 25, 2006, at the Company's corporate office located at 300 Phillipi Road, Columbus, Ohio. The Notice of Annual Meeting of Shareholders, this Proxy Statement and the accompanying proxy card, together with the Company's Annual Report to Shareholders for the fiscal year ended January 28, 2006 ("fiscal 2005"), are first being mailed to shareholders on or about April 19, 2006.

ABOUT THE ANNUAL MEETING

Purpose of the Annual Meeting

At the Annual Meeting, shareholders will act upon the matters outlined in the Notice of Annual Meeting included with this Proxy Statement. Specifically, the shareholders will be asked to elect the Company's directors, approve the Big Lots 2006 Bonus Plan (the "2006 Bonus Plan"), and transact such other business as may properly come before the Annual Meeting. In addition, management will report on the performance of the Company.

Shareholder Voting Rights

Only those shareholders of record at the close of business on March 27, 2006, the record date for the Annual Meeting, are entitled to receive notice of and to vote at the Annual Meeting. At the record date, the Company had outstanding 113,759,701 common shares, $.01 par value per share. Each of the outstanding common shares is entitled to one vote on each matter voted upon at the Annual Meeting, or any postponement or adjournment thereof. The holders of common shares have no cumulative voting rights in the election of directors. All voting shall be governed by the Code of Regulations of the Company and the General Corporation Law of the State of Ohio.

Registered Shareholders and Beneficial Shareholders

If your common shares are registered in your name directly with the Company's transfer agent, National City Bank, you are considered, with respect to those common shares, a registered shareholder. The Notice of Annual Meeting of Shareholders, Proxy Statement, proxy card, and 2005 Annual Report to Shareholders have been sent directly to registered shareholders by the Company.

If your common shares are held in a brokerage account or by a bank or other holder of record, you are considered the beneficial owner of common shares held in street name. The Notice of Annual Meeting of Shareholders, Proxy Statement, proxy card, and 2005 Annual Report to Shareholders have been forwarded to you by your broker, bank or other holder of record who is considered, with respect to those common shares, the registered shareholder. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote your common shares by using the voting instruction card included in the mailing or by following their instructions for voting electronically.

Attendance at the Annual Meeting

All shareholders as of the record date, or their duly appointed proxies, may attend the Annual Meeting. Registration and seating will begin at 8:30 a.m. EDT, and the Annual Meeting will begin at 9:00 a.m. EDT. If you attend, please note that you may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting. Please also note that if you hold your common shares as a beneficial shareholder, you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the Annual Meeting.

How to Vote

You may vote by completing, dating and signing the accompanying proxy card and returning it in the enclosed envelope. You may also vote online at www.proxyvote.com until May 24, 2006 at 11:59 p.m. EDT. If you wish to vote online, you will need your proxy card and must follow the instructions posted on the website. If you complete, date, sign and return your proxy card or you properly complete your proxy via the Internet, your shares will be voted as you direct.

If you are a registered shareholder and attend the Annual Meeting, you may deliver your completed proxy card in person. Beneficial shareholders who wish to vote at the Annual Meeting will need to obtain a proxy form from the broker or other nominee that is the registered holder of the common shares. Additionally, beneficial shareholders may be able to instruct the broker or other nominee how to vote by telephone or electronically, so please contact your broker or other nominee to determine availability and applicable deadlines.

A proxy may be revoked at any time before it is exercised by filing with the Secretary of the Company a notice of revocation or a duly executed proxy bearing a later date. A proxy may also be revoked by attending the Annual Meeting and giving notice of revocation to the Secretary of the meeting, either in writing or in open meeting. Attendance at the Annual Meeting will not by itself revoke a previously granted proxy.

Householding

The Securities and Exchange Commission ("SEC") has enacted a regulation that allows multiple shareholders residing at the same address the convenience of receiving a single copy of annual reports, proxy statements, notices of shareholder meetings, and other documents if they consent to do so. Please note that if you do not respond to the householding election, householding will begin 60 days after the mailing of the Proxy Statement. Householding will be permitted only upon certain conditions, including where you agree to or do not object to the householding of your materials and you have the same last name and address as another shareholder. If these conditions are met, and SEC regulations allow, your household will receive a single copy of annual reports, proxy statements, notices of shareholder meetings, and other documents.

The householding election that appears on the enclosed proxy card provides a means for you to notify us whether or not you consent to householding. By marking "yes" in the box provided, you will consent to householding. By marking "no" in the box provided, you withhold your consent to participation. If you do nothing, you will be deemed to have given your consent to householding. Your consent to householding will be perpetual unless you revoke it. You may revoke your consent at any time by contacting Automatic Data Processing, Inc. ("ADP"), either by calling 1-800-542-1061, or by writing to: ADP-ICS, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. You will be removed from the householding program within 30 days of receipt of your response, following which you will receive an individual copy of our disclosure document.

Beneficial owners can request more information about householding from their banks, brokers or other holders of record.

Electronic Delivery of Proxy Materials and Annual Report

In lieu of receiving paper copies of next year's proxy materials and annual report in the mail, shareholders may elect to receive these documents electronically via e-mail or the Internet. By opting to access these documents electronically, you will save the Company the cost of producing and mailing documents to you, reduce the amount of mail you receive, and help preserve environmental resources. To enroll in the electronic delivery service for future annual meetings, use your proxy card information to register online at www.proxyvote.com by indicating that you agree to receive or access shareholder communications electronically in future years.

Tabulation of the Votes

Tabulation of the votes cast at the Annual Meeting will be performed by ADP, as inspected by duly appointed officers of the Company.

Board's Recommendation

Unless you give other instructions on your proxy card (excluding broker non-votes), the persons named as proxy holders on the proxy card will vote the common shares in accordance with the recommendations of the Board. The Board's recommendation is set forth together with the description of each proposal in this Proxy Statement. In summary, the Board recommends a vote FOR election of the nominated slate of directors (see Proposal One), and FOR the approval of the 2006 Bonus Plan (see Proposal Two). If any other matter properly comes before the Annual Meeting, or if a director nominee named in the Proxy Statement is unable to serve or for good cause will not serve, the proxy holders will vote on such matter or for such substitute nominee as recommended by the Board.

Vote Required to Approve a Proposal

Proposal One

For purposes of Proposal One, the nine director nominees receiving the greatest number of votes cast shall be elected. A properly executed proxy marked "withhold authority" with respect to the election of one or more nominees for director will not be voted with respect to the nominee or nominees for director indicated, although it will be counted for purposes of determining whether there is a quorum. If you are a beneficial shareholder, your broker or other nominee that is the registered holder of your common shares is permitted to vote your shares for the election of directors even if the broker or other nominee does not receive voting instructions from you.

Other Matters

For purposes of Proposal Two and any other matters that may properly come before the Annual Meeting, the affirmative vote of the holders of a majority of the common shares represented in person or by proxy and entitled to vote on each such matter will be required for approval. A properly executed proxy marked "abstain" with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote. If no voting instructions are given (excluding broker non-votes), the persons named as proxy holders on the proxy card will vote the common shares in accordance with the recommendations of the Board.

If you are a beneficial shareholder, your broker or other nominee may not be permitted to exercise discretionary voting power with respect to some of the matters to be acted upon. Thus, if you do not give your broker or other nominee specific voting instructions, your common shares may not be voted on those matters and will not be counted in determining the number of common shares necessary for approval. Common shares represented by such "broker non-votes" will, however, be counted in determining whether there is a quorum.

Quorum

The presence, in person or by proxy, of the holders of a majority of the outstanding common shares entitled to vote at the Annual Meeting will constitute a quorum, permitting the Company to conduct its business at the Annual Meeting. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of votes considered to be present at the Annual Meeting for purposes of establishing a quorum.

PROPOSAL ONE: ELECTION OF DIRECTORS

At the Annual Meeting, the common shares of the Company represented by proxies will be voted, unless otherwise specified, for the election of the nine director nominees named below. All nine nominees are currently directors of the Company. Proxies cannot be voted at the Annual Meeting for more than nine persons.

Set forth below is certain information relating to the nominees for election as directors. Directors are elected to serve until the next annual meeting of shareholders and until their respective successors are elected and qualified, or until their earlier death, resignation or removal.

Name	Age	Principal Occupation for the Past Five Years	Director Since
Sheldon M. Berman	65	Chairman, Chief Executive Officer and President, Xtreem Creative, Inc. (business planning, marketing planning, and advertising services).	1994
Steven S. Fishman	54	Chairman, Chief Executive Officer and President of the Company; former President, Chief Executive Officer and Chief Restructuring Officer, Rhodes, Inc. (furniture retailer) — Rhodes, Inc. filed for bankruptcy on November 4, 2004; former Chairman and Chief Executive Officer, Frank's Nursery & Crafts, Inc. (lawn and garden specialty retailer) — Frank's Nursery & Crafts, Inc. filed for bankruptcy on September 8, 2004; former President and Founder, SSF Resources, Inc. (investment and consulting).	2005
David T. Kollat	67	President and Founder, 22, Inc. (research and management consulting).	1990
Brenda J. Lauderback	55	Former President — Wholesale Group, Nine West Group, Inc. (retail and wholesale footwear); former President — Footwear Wholesale, U.S. Shoe Corporation (retail and wholesale footwear); former Vice President, General Merchandise Manager, Dayton Hudson Corporation (retail stores).	1997
Philip E. Mallott	48	Independent financial consultant; retail stock analyst, Coker & Palmer (securities brokerage services); former Vice President and Chief Financial Officer, Intimate Brands, Inc. (retail stores).	2003
Ned Mansour	57	Former President, Mattel, Inc. (designer, manufacturer and marketer of toy products).	2003
Russell Solt	58	Director of Investor Relations, West Marine, Inc. (specialty retailer and catalog company); former Executive Vice President and Chief Financial Officer, West Marine, Inc.; former Senior Vice President and Chief Financial Officer, West Marine, Inc.; former President, Venture Stores (discount retailer).	2003
James R. Tener	56	President and Chief Operating Officer, Brook Mays Music Group (retail and wholesale music); former Chief Operating Officer, The Sports Authority (sporting goods retailer).	2005
Dennis B. Tishkoff	62	Chairman and Chief Executive Officer, Drew Shoe Corporation (manufacture, import and export, retail and wholesale footwear); President, Tishkoff and Associates, Inc. (retail consultant); former President and Chief Executive Officer, Shoe Corporation of America (retail footwear).	1991

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE NOMINEES LISTED ABOVE.

GOVERNANCE OF THE COMPANY

Current Members of the Board of Directors

The members of the Board as of the date of this Proxy Statement, and the committees of the Board on which they serve, are identified below. The Board has standing Audit, Compensation, and Nominating/Corporate Governance Committees. During fiscal 2005, the Board used an ad hoc Search Committee to assist the Board in identifying a new Chief Executive Officer ("CEO"). All committees report on their activities to the Board.

Director	Audit Committee	Compensation Committee	Nominating/ Corporate Governance Committee	Search Committee
Sheldon M. Berman			*	
Steven S. Fishman				
David T. Kollat		**	*	**
Brenda J. Lauderback		*		*
Philip E. Mallott	**			*
Ned Mansour			**	
Russell Solt	*			
James R. Tener	*			
Dennis B. Tishkoff		*		*

* Committee Member

** Committee Chair

Board Meetings in Fiscal 2005

Nine meetings of the Board were held during fiscal 2005. During the period for which he or she was a director in fiscal 2005, each director attended at least 75% of all meetings of the Board and the committees on which he or she served. Absent extenuating circumstances, it is the policy of the Company that each nominee standing for election be present at the Company's Annual Meeting of Shareholders. Each director listed above attended the Company's most recent Annual Meeting of Shareholders held in May 2005, except for Mr. Fishman who did not become a director until July 11, 2005. Under the Company's Corporate Governance Guidelines (the "Guidelines"), each director is expected to dedicate sufficient time and attention to ensure the diligent performance of his or her duties, including by attending meetings of the shareholders of the Company, the Board, and the committees of which he or she is a member.

Role of the Board's Committees

Audit Committee

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibility with respect to the integrity of the financial reports and other financial information provided by the Company to its shareholders and others; the Company's compliance with legal and regulatory requirements; the engagement of the independent auditor and the evaluation of the independent auditor's qualifications, independence and performance; the performance of the Company's system of internal controls; and the Company's audit, accounting and financial reporting processes generally. All members of the Audit Committee are independent as required by the Audit Committee's charter and by the applicable New York Stock Exchange ("NYSE") and SEC rules. Philip E. Mallott and Russell Solt serve as the Audit Committee's financial experts, and the Board has determined that both satisfy the standards for "audit committee financial expert" as required by the SEC under the Sarbanes-Oxley Act of 2002. Each member of the Audit Committee is "financially literate," as required by the NYSE rules.

The functions of the Audit Committee are further described in its charter and in the Audit Committee Report found later in this Proxy Statement. The charter of the Audit Committee is included as Appendix II to this

Proxy Statement and is available on the Company's website at www.biglots.com under the "Investor Relations — Governance" caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Audit Committee met twelve times during fiscal 2005.

Compensation Committee

The Compensation Committee discharges the responsibilities of the Board relating to the administration of the Company's compensation programs. The Compensation Committee is involved in establishing the Company's general compensation philosophy, reviewing and approving executive compensation, and overseeing the development and implementation of compensation programs. All members of the Compensation Committee are independent as required by the Committee's charter and the NYSE rules.

The functions of the Compensation Committee are further described in its charter and in the Compensation Committee Report on Executive Compensation found later in this Proxy Statement. The charter of the Compensation Committee is available on the Company's website at www.biglots.com under the "Investor Relations — Governance" caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Compensation Committee met four times during fiscal 2005.

Nominating/Corporate Governance Committee

The Nominating/Corporate Governance Committee is responsible for recommending individuals to the Board for nomination as members of the Board and its committees and taking a leadership role in shaping the Company's corporate governance policies and practices, including recommending to the Board the Guidelines applicable to the Company and monitoring Company compliance with the same. All members of the Nominating/Corporate Governance Committee are independent as required by the Committee's charter and the NYSE rules. The functions of the Nominating/Corporate Governance Committee are further described in its charter, which is available on the Company's website at www.biglots.com under the "Investor Relations — Governance" caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Nominating/Corporate Governance Committee met twice during fiscal 2005.

Search Committee

In January 2005, the Board formed an ad hoc Search Committee for the purpose of identifying a new CEO to replace Michael J. Potter. The Search Committee was assisted in its recruitment efforts by an independent executive search firm that provides research and other pertinent information regarding potential candidates. In conducting its search, the Search Committee reviewed the candidates' skill set and experience as it related to the needs of the Company. As the result of its efforts, the Search Committee recommended Mr. Fishman to the Board for its consideration as the new CEO. Following Mr. Fishman's appointment as the Company's CEO in July 2005, the Search Committee was disbanded. The members of the Search Committee met individually with several candidates and met as a group once in fiscal 2005.

Presiding Member of the Board

The Board has a presiding director whose primary responsibility is to preside over periodic executive sessions of the Board in which management directors and other members of management are not present. The role of presiding director is rotated among the non-management members of the Board. The presiding director is responsible for establishing an agenda for the session over which he or she presides and, upon the conclusion of an executive session of the Board, meets with the Company's CEO and addresses any issues raised during the executive session.

Determination of Director Independence

In November 2005, the Board revised the Guidelines, which were initially adopted in August 2003. The Guidelines adopted by the Board comply with the NYSE rules. The Guidelines can be found on the Company's website at www.biglots.com under the "Investor Relations — Governance" caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary.

Pursuant to the Guidelines, the Board undertook its most recent annual review of director independence in February 2006. During this review, the Board considered transactions and relationships between each director, his or her affiliates, and any member of his or her immediate family and the Company, its subsidiaries, and members of senior management. The purpose of this review was to determine whether any such transactions or relationships were inconsistent with a determination that the director is independent. In determining under the NYSE rules whether any director has a material relationship with the Company (either directly or as a partner, shareholder or officer of another entity) aside from his or her service as a director of the Company, the Board considered the following factors:

- whether the director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer, of the Company;
- whether the director has received, or an immediate family member has received, during any twelve-month period within the last three years, more than $100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service for which such compensation is not contingent in any way on continued service to the Company;
- whether the director or an immediate family member is a partner or employee of a firm that is the Company's internal or external auditor, whether the director's immediate family member who is a current employee of such a firm participates in the firm's audit, assurance or tax compliance practice, or whether the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time;
- whether the director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee; and
- whether the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2% of such other company's consolidated gross revenues.

As a result of this review, the Board affirmatively determined that all of the directors nominated for election at the Annual Meeting, with the exception of Mr. Fishman, are independent of the Company and its management under the standards set forth by the NYSE rules and none of them have a material relationship with the Company aside from his/her service as a director of the Company. Mr. Fishman is considered a non-independent inside director due to his employment as the Company's CEO.

Other Directorships

Mr. Kollat is a director of Limited Brands, Inc., Select Comfort Corporation, and Wolverine Worldwide, Inc. Mr. Kollat serves on the finance committee at Limited Brands, Inc., the audit committee at Select Comfort Corporation, and the governance and audit committees at Wolverine Worldwide, Inc., where he is the chair of the audit committee. Ms. Lauderback is a director of Select Comfort Corporation, Irwin Financial Corporation, Wolverine Worldwide, Inc. and Denny's Corporation. Ms. Lauderback is a member of the audit committee at Wolverine Worldwide, Inc., and serves on both the audit and compensation committees at Irwin Financial Corporation. Mr. Mallott is a director of Too, Inc., where he also serves as the chair of the audit committee. Mr. Mansour is a director of The Ryland Group, where he is a member of the audit committee. Mr. Tener is a director of Edwin Watts Golf. Mr. Tishkoff is a director of Drew Shoe Corporation.

Selection of Nominees by the Board

The Nominating/Corporate Governance Committee has oversight over a broad range of issues surrounding the composition and operation of the Board. The Nominating/Corporate Governance Committee is responsible for recommending to the Board the appropriate skills and qualifications required of Board members, based on the needs of the Company from time to time. The Nominating/Corporate Governance Committee also evaluates prospective nominees against the standards and qualifications set forth in the Company's Corporate Governance Guidelines. Although the Nominating/Corporate Governance Committee has not approved any specific minimum qualifications that must be met by a nominee for director recommended by the Committee, the Committee does consider factors such as the prospective nominee's relevant experience, character, intelligence, independence, commitment, judgment, prominence, diversity, age, and compatibility with the Company's CEO and other members of the Board. The Nominating/Corporate Governance Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, and the need for committee expertise. The Nominating/Corporate Governance Committee confers with the full Board as to the criteria it intends to apply before the search for a new director nominee is commenced.

In identifying potential candidates for Board membership, the Nominating/Corporate Governance Committee considers recommendations from the Board, shareholders, and management. A shareholder who wishes to recommend a prospective nominee to the Board must send written notice to: Chair of the Nominating/Corporate Governance Committee, 300 Phillipi Road, Columbus, Ohio 43228. The written notice shall include the prospective nominee's name, age, business address, principal occupation, beneficial ownership of the Company's common shares, information that would be required under the rules of the SEC in a proxy statement soliciting proxies for the election of such prospective nominee as a director, and any other information that is deemed relevant by the recommending shareholder. Shareholder recommendations that comply with these procedures and that meet the factors outlined above will receive the same consideration that the recommendations of the Board and management receive.

Pursuant to its written charter, the Nominating/Corporate Governance Committee also has the authority to retain consultants and search firms to assist in the process of identifying and evaluating candidates and to approve the fees and other retention terms for any such consultant or search firm. In fiscal 2005, an outside search firm was retained to assist in identifying and evaluating prospective Board members, including in connection with the search for a new CEO.

After completing the evaluation of a prospective nominee, the Nominating/Corporate Governance Committee may make a recommendation to the full Board that the targeted individual be nominated by the Board, and the Board shall decide whether to approve a nominee after considering the recommendation and report of the Committee. Any invitation to join the Board will be extended through the chair of the Nominating/Corporate Governance Committee and the Company's CEO, after approval by the full Board.

Director Compensation

Retainers and Fees

Pursuant to arrangements with the Company, each director who is not an officer of the Company and who is not involved in the daily affairs of managing the Company ("outside director") is compensated for Board and committee participation. The retainers and fees for outside directors in fiscal 2005 consisted of: an annual retainer of $36,000; an additional annual retainer of $4,000 for the chair of the Audit Committee; an additional annual retainer of $2,000 for the chair of each of the Board's other committees; $1,500 for each Board meeting attended in person; $1,000 for each committee meeting attended in person; $500 for each Board or committee meeting attended telephonically; and the ability to have the Company consider making a donation of up to $10,000 annually to a charity recommended by the director. During fiscal 2005, the chair of the Search Committee also received a one-time retainer of $15,000 and each other member of the Search Committee received a one-time retainer of $10,000. During fiscal 2005, eight directors, Messrs. Berman, Kollat, Mallott, Mansour, Solt, Tener and Tishkoff, and Ms. Lauderback, qualified as outside directors and, thus, were parties to such arrangements. The following table summarizes the retainers and fees earned in fiscal 2005 by each director standing for election.

Director	Board Retainer	Board Meeting Fees	Committee Retainer	Committee Meeting Fees	Total
Sheldon M. Berman	$36,000	$11,000	$ 0	$ 2,000	$49,000
David T. Kollat	$36,000	$11,500	$17,000	$ 6,500	$71,000
Brenda J. Lauderback	$36,000	$10,500	$10,000	$ 5,500	$62,000
Philip E. Mallott	$36,000	$11,500	$14,000	$13,000	$74,500
Ned Mansour	$36,000	$ 8,000	$ 2,000	$ 1,500	$47,500
Russell Solt	$36,000	$11,000	$ 0	$10,000	$57,000
James R. Tener	$36,000	$10,000	$ 0	$ 6,000	$52,000
Dennis B. Tishkoff	$36,000	$11,500	$10,000	$ 4,500	$62,000

Stock Options

In addition to the retainers and fees, outside directors receive an annual stock option grant under the Big Lots Director Stock Option Plan (the "Director Stock Option Plan"). During fiscal 2005, each of the eight outside directors received an option to acquire 10,000 common shares of the Company pursuant to the Director Stock Option Plan. The number of common shares available under the Director Stock Option Plan initially consisted of the original allocation of 500,000 common shares (781,250 shares as adjusted to account for the five for four stock splits which occurred in December 1996 and June 1997).

The Director Stock Option Plan is administered by the Compensation Committee. Neither the Board nor the Compensation Committee exercise any discretion in administering the Director Stock Option Plan, and the administration performed by the Compensation Committee is ministerial in nature. The formula which governs the grant of stock options to eligible participants may be amended by the Board, but not more frequently than once in any six month period. Under the current formula, each outside director is granted annually an option to acquire 10,000 of the Company's common shares, for an exercise price equal to the fair market value on the date of grant. Each annual grant occurs on the last day of the quarterly trading period next following the Annual Meeting.

Stock options granted under the Director Stock Option Plan become exercisable over three years beginning upon the first anniversary of the grant date, whereby the stock option becomes exercisable for 20% of the shares on the first anniversary, 60% on the second anniversary, and 100% on the third anniversary. Stock options automatically terminate 10 years and one month following the date of grant. An optionee may dispose of the common shares underlying a stock option only during specific quarterly trading periods. Stock options granted under the Director Stock Option Plan are not transferable other than by will or the laws of descent and distribution.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* ("SFAS No. 123(R)"), which requires an entity to measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. On November 21, 2005, the Company announced that the Compensation Committee, after discussion with the Board, approved accelerating the vesting of stock options awarded on or before February 21, 2005, under the Director Stock Option Plan and the Big Lots, Inc. 1996 Performance Incentive Plan, as amended (the "1996 Incentive Plan"). The Committee did not, however, accelerate the vesting of stock options granted after February 21, 2005, including those granted to the outside directors in fiscal 2005 or the stock options previously awarded to the Company's former CEO. Additionally, the Committee imposed a holding period that requires all directors, executive vice presidents, and senior vice presidents (including the Company's named executive officers other than Messrs. Fishman and Potter, whose options were not accelerated) to refrain from selling net shares acquired upon any exercise of these accelerated options, until the date on which the exercise would have been permitted under the options' original vesting terms or, if earlier, the executive officer's death, disability or termination of employment. In addition to the perceived positive effect on associate morale and retention, the decision to accelerate vesting of stock options was made primarily to reduce non-cash compensation expense that would have been recorded following the adoption of SFAS No. 123(R) in the first quarter of fiscal 2006.

Code of Business Conduct and Ethics & Code of Ethics for Financial Professionals

The Company has a Code of Business Conduct and Ethics, which is applicable to all of the Company's associates, including the directors, the principal executive officer, the principal financial officer and the principal accounting officer. The Company has a separate Code of Ethics for Financial Professionals which is applicable to its CEO, Chief Administrative Officer, and all other Senior Financial Officers (as that term is defined therein). Both the Code of Business Conduct and Ethics and the Code of Ethics for Financial Professionals are available on the Company's website at www.biglots.com under the "Investor Relations — Governance" caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Company intends to post amendments to or waivers from its Code of Business Conduct and Ethics (to the extent applicable to the Company's directors and executive officers) or to the Code of Ethics for Financial Professionals at this location on its website.

Shareholder Communications to the Board

Shareholders and other parties interested in communicating directly with the Board or with the outside directors as a group may do so by choosing one of the following options:

Call the Board at:	(866) 834-7325
Write to the Board at:	Big Lots Board of Directors, 300 Phillipi Road, Columbus, Ohio 43228-5311
E-mail the Board at:	www.ci-wackenhut.com/getreal.htm

Under a process approved by the Nominating/Corporate Governance Committee for handling correspondence received by the Company and addressed to outside directors, the Office of the General Counsel of the Company reviews all such correspondence and forwards to the Board or applicable members of the Board a summary and/or copies of any such correspondence that, in the opinion of the General Counsel, deals with the functions of the Board or committees thereof or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is directed to members of the Board and request copies of any such correspondence. Concerns relating to the Company's accounting, internal accounting controls or auditing matters will be referred to members of the Audit Committee. Concerns relating to the Board or members of senior management will be referred to the members of the Nominating/ Corporate Governance Committee. Those parties sending written communications to the Board will receive a written acknowledgement upon the Company's receipt of the communication. Parties submitting communications to the Board may choose to do so anonymously or confidentially.

STOCK OWNERSHIP

Ownership of Company Stock by Certain Beneficial Owners and Management

The following table sets forth certain information with regard to the beneficial ownership of the common shares of the Company by each holder of more than 5% of such common shares, each director, each of the executive officers named in the Summary Compensation Table, and all executive officers and directors of the Company as a group. The assessment of holders of more than 5% of the Company's common shares is based on a review of and reliance upon filings with the SEC. Except as otherwise indicated, all information is as of March 27, 2006.

Name of Beneficial Owner or Identity of Group	Amount and Nature of Beneficial Ownership(9)(10)	Percent of Outstanding Common Shares
Lisa M. Bachmann	158,559	*
Sheldon M. Berman (1)	77,562	*
Joe R. Cooper	194,950	*
Steven S. Fishman	200,000	*
David T. Kollat	162,034	*
Brenda J. Lauderback	55,300	*
Philip E. Mallott	22,500	*
Ned Mansour	28,000	*
John C. Martin	206,277	*
Michael J. Potter	1,468,326	1.3%
Russell Solt	22,000	*
James R. Tener	0	*
Dennis B. Tishkoff	65,422	*
Brad A. Waite	650,057	*
FMR Corp. (2)	17,036,630	15.0%
Cooke & Bieler, L.P. (3)	12,507,190	11.0%
First Pacific Advisors, Inc. (4)	10,611,300	9.3%
Capital Research and Management Company (5)	9,271,400	8.1%
Royce & Associates, LLC (6)	8,159,700	7.2%
Sasco Capital, Inc. (7)	6,303,500	5.5%
Westport Asset Management, Inc. (8)	5,835,182	5.1%
All directors & executive officers as a group (19 persons)	4,334,099	3.8%

* Represents less than 1.0% of the outstanding common shares.

(1) Includes 5,468 common shares owned by Xtreem Creative, Inc., of which Mr. Berman serves as Chairman, Chief Executive Officer and President.

(2) In its joint statement on Schedule 13G/A filed on February 14, 2006 with Edward C. Johnson III, FMR Corp. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, which number includes 16,933,816 shares (14.9% of the common shares at that date) beneficially owned by Fidelity Management & Research Company in its capacity as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940, and 102,814 shares beneficially owned by Fidelity Management Trust Company as a result of its serving as investment manager for various institutional accounts. Of the common shares reported in the table above, FMR Corp. had sole voting power over 445,134 shares and sole dispositive power over all of the shares.

(3) In its Schedule 13G/A filed on February 15, 2006, Cooke & Bieler, L.P. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, had no sole voting power over the shares, shared voting power over 7,094,490 of the shares, no sole dispositive power over the shares, and shared dispositive power over 12,074,090 of the shares.

(4) In its Schedule 13G/A filed on February 10, 2006, First Pacific Advisors, Inc. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, had shared voting power over 3,478,100 of the shares, and shared dispositive power over all the shares.

(5) In its joint statement on Schedule 13G/A filed on February 10, 2006 with The Growth Fund of America, Inc., Capital Research and Management Company stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, had sole voting power over 4,271,400 of the shares and sole dispositive power over all the shares, and that The Growth Fund of America, Inc. had sole voting power over 5,000,000 of the shares and no dispositive power over any of the shares.

(6) In its Schedule 13G/A filed on January 11, 2006, Royce & Associates, LLC stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, and had sole voting power and sole dispositive power over all of the shares.

(7) In its Schedule 13G filed on February 6, 2006, Sasco Capital, Inc. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, and had sole voting power over 2,644,200 of the shares and sole dispositive power over all of the shares.

(8) In its Schedule 13G filed on February 13, 2006, Westport Asset Management, Inc. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, had sole voting power over 1,360,906 of the shares, shared voting power over 3,968,739 of the shares, sole dispositive power over 1,360,906 of the shares, and shared dispositive power over 4,474,276 of the shares. Westport Asset Management, Inc. owns 50% of Westport Advisors LLC, an investment advisor with whom it shares voting power over 3,968,739 of the shares.

(9) The persons named in the table have sole voting power and dispositive power with respect to all common shares of the Company shown as beneficially owned by them, except as otherwise stated in the footnotes to this table. The amounts set forth in the table include common shares that may be acquired within 60 days of the record date under stock options exercisable within that period. Of the common shares reported for Messrs. Berman, Cooper, Fishman, Kollat, Mallott, Mansour, Martin, Potter, Solt, Tener, Tishkoff and Waite, and Mss. Bachmann and Lauderback, and for all directors and executive officers as a group, 62,813, 160,000, 0, 62,813, 20,000, 20,000, 150,000, 1,392,500, 20,000, 0, 62,813, 562,500, 130,000, 55,000 and 3,624,189, respectively, are common shares which may be acquired within 60 days of the record date under stock options exercisable within that period.

(10) The amounts reported in the table above include common shares of the Company that it has acquired for purposes of the Company's obligation to match a portion of the Named Executive Officers' respective contributions to the Big Lots Supplemental Savings Plan. With respect to the contributions of Messrs. Cooper, Fishman, Martin, Potter and Waite, and Ms. Bachmann, 2,121, 0, 903, 31,346, 16,470 and 590 common shares were acquired by the Company, respectively. The Named Executive Officers do not have voting or dispositive power with respect to the common shares held by the Company in connection with the Big Lots Supplemental Savings Plan.

The addresses of the persons shown in the table above as a beneficial owner of more than 5% of the Company's common shares are as follows: FMR Corp., Fidelity Management & Research Company, and Fidelity Management Trust Company, 82 Devonshire Street, Boston, MA 02109; Cooke & Bieler, L.P., 1700 Market Street, Philadelphia, PA 19103; First Pacific Advisors, Inc., 11400 West Olympic Boulevard, Suite 1200, Los Angeles, CA 90064; Capital Research and Management Company, 333 South Hope Street, Los Angeles, CA 90071; Royce & Associates, LLC, 1414 Avenue of the Americas, New York, NY 10019; Sasco Capital, Inc., 10 Sasco Hill Road, Fairfield, CT 06824; and Westport Asset Management, Inc., 253 Riverside Avenue, Westport, CT 06880.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors and executive officers, and persons who beneficially own more than 10% of the Company's outstanding common shares, to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of common shares of the Company. Executive officers, directors and greater than 10% shareholders are required by the regulations of the SEC to furnish the Company with copies of all Section 16(a) reports they file. Based upon a review of filings with the SEC and written representations that no other reports were required, the Company believes that all of its directors, executive officers and 10% shareholders complied during fiscal 2005 with the reporting requirements of Section 16(a) of the Exchange Act, with the exception of the Form 3 that was filed late by Mr. Tener to report that he did not beneficially own any of the Company's securities.

AUDIT COMMITTEE REPORT

The Audit Committee (referred to as the "Committee" for purposes of this Report) assists the Board in fulfilling its oversight responsibility with respect to the integrity of the Company's accounting, auditing and reporting processes. Annually, the Committee selects the Company's independent auditors. Deloitte & Touche LLP was selected as the Company's independent auditors for fiscal 2005. As of the date of the Proxy Statement, no independent auditor has been selected for the fiscal year ending February 3, 2007 ("fiscal 2006"), as the Committee believes it to be in the Company's best interest to delay its selection until a reasonable time following the completion of the fiscal 2005 audit.

The Committee consists of three outside directors of the Board. The Company's common shares are listed on the NYSE. The members of the Committee have been reviewed by the Board and determined to be independent within the meaning of all applicable SEC regulations and the listing standards of the NYSE.

The charter of the Committee specifies that the purpose of the Committee is to assist the Board in its oversight of:

- the integrity of the Company's financial statements and financial reporting process, and the Company's systems of internal accounting and financial controls;
- the Company's compliance with legal and regulatory requirements, including the Company's disclosure controls and procedures;
- the annual independent audit of the Company's financial statements, the engagement of the independent auditor, and the evaluation of the independent auditor's qualifications, independence and performance;
- the performance of the Company's internal audit function;
- the evaluation of enterprise risk issues; and
- the fulfillment of other responsibilities set forth in its charter.

The full text of the Committee's charter is included as Appendix II to this Proxy Statement and is available on the Company's website at www.biglots.com under the "Investor Relations — Governance" caption. The Committee regularly reviews its responsibilities as outlined in its charter, prepares an annual agenda to include all of its responsibilities, conducts a self-assessment and review of the charter annually, and believes it fulfilled its responsibilities thereunder in fiscal 2005.

The Committee met twelve times during fiscal 2005. The Committee schedules its meetings with a view towards ensuring that it devotes appropriate attention to all of its responsibilities. The Committee's meetings include, whenever appropriate, executive sessions with the Company's independent auditors and with the Company's internal auditors, in each case without the presence of the Company's management. The Committee also meets in executive session without the presence of anyone else, whenever appropriate.

During the course of fiscal 2005, management completed the documentation, testing and evaluation of the Company's system of internal control over financial reporting in accordance with the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. The Committee was apprised of the progress of the evaluation and provided oversight and advice to management during the process. In connection with this oversight, the Committee received periodic updates provided by management and Deloitte & Touche LLP at each regularly scheduled Committee meeting. The Committee also reviewed the report of management contained in the Company's Annual Report on Form 10-K for fiscal 2005, as well as Deloitte & Touche LLP's Report of Independent Registered Public Accounting Firm included in the Company's Annual Report on Form 10-K related to its audit of (i) the Company's consolidated financial statements and financial statement schedule, (ii) management's assessment of the effectiveness of internal control over financial reporting, and (iii) the effectiveness of internal control over financial reporting. The Committee continues to oversee the Company's efforts related to its internal control over financial reporting and management's preparations for the evaluation in fiscal 2006.

The Committee has reviewed and discussed the audited financial statements with management and Deloitte & Touche LLP. Management has the primary responsibility for the financial statements and the reporting process. The Committee has discussed with Deloitte & Touche LLP the matters required to be discussed by SAS No. 61 (Codification of Statements on Auditing Standards, AU Section 380), as modified or supplemented. The Committee has received written disclosures and a letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as modified or supplemented, and has discussed the independence of Deloitte & Touche LLP with Deloitte & Touche LLP.

The Committee has also considered whether Deloitte & Touche LLP's provision of any non-audit services to the Company is compatible with maintaining the independence of Deloitte & Touche LLP. Consistent with the Committee's Audit and Non-Audit Services Pre-Approval Policy, all audit and non-audit services rendered by Deloitte & Touche LLP in fiscal 2005, including the related fees, were pre-approved by the Committee. Under the policy, the Committee is required to pre-approve all audit and permissible non-audit services performed by the independent auditor in order to assure that the provision of those services does not impair the independent auditor's independence. Pre-approval is detailed as to the particular service or category of service and is subject to a specific engagement authorization. The Committee requires the independent auditor and management to report on the actual fees incurred for each category of service at Committee meetings throughout the year.

During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services which have not been approved. In those instances, the Committee requires specific pre-approval before engaging the independent auditor. The Committee may delegate pre-approval authority to one or more of its members for those instances when pre-approval is needed prior to a scheduled Committee meeting. The member or members to whom pre-approval authority is delegated must report any pre-approval decisions to the Committee at its next scheduled meeting.

The fees incurred by the Company for the professional services rendered by Deloitte & Touche LLP during the two most recently completed fiscal years were as follows:

	Fiscal 2005	Fiscal 2004
Audit Fees	$1,627,000	$1,367,000
Audit-Related Fees (a)	$ 109,000	$ 120,000
Tax Fees (b)	$ 25,000	$ 114,000
All Other Fees	$ —	$ —
Total Fees	$1,761,000	$1,601,000

(a) Principally audits of employee benefit plans and accounting consultation.

(b) Principally tax planning and tax compliance services.

The Committee has also reviewed key initiatives and programs aimed at strengthening the effectiveness of the Company's internal and disclosure control structure. As part of this process, the Committee continued to monitor the scope and adequacy of the Company's internal auditing program, reviewing staffing levels and steps taken to implement recommended improvements in internal procedures and controls. Based on all of these discussions and a review of all the items delivered, the undersigned members of the Committee recommended to the Board that it approve the inclusion of the Company's audited consolidated financial statements in the Company's Annual Report on Form 10-K for fiscal 2005, for filing with the SEC.

Members of the Audit Committee

Philip E. Mallott, Chair
Russell Solt
James R. Tener

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The compensation program for the Company's executives, including the CEO and the other executive officers named in the Summary Compensation Table (the "Named Executive Officers"), is administered by the Compensation Committee of the Board (referred to as the "Committee" for purposes of this Report). In connection with the decision to shift certain responsibilities related to the identification of candidates for service on the Board and its committees from the Committee to the Nominating/Corporate Governance Committee, the Committee's charter was amended and its name was changed from the Nominating and Compensation Committee to the Compensation Committee in November 2005. Notwithstanding these changes, the role of the Committee continues to include establishing and implementing the philosophy, policies and procedures applicable to the Company's executive compensation program; reviewing and approving all executives' compensation; administering the Company's equity-based compensation plans and approving grants made to executives thereunder; and reporting on the entirety of the executive compensation program to the Board. The Committee's charter reflects these responsibilities, and the Committee and the Board periodically review the charter and revise it as needed. The charter, as last revised in November 2005, is available on the Company's website at www.biglots.com under the "Investor Relations — Governance" caption.

The Committee's membership is determined by the Board and is composed of three outside directors who are independent within the meaning of the listing standards of the NYSE. The Committee meets at scheduled times during the year and as otherwise needed. The Committee Chair reports on Committee actions and recommendations at Board meetings. The Company's Human Resources Department and a management working group support the Committee's efforts and, in some cases, act pursuant to delegated authority to fulfill various functions in administering the Company's compensation programs. In addition, the Committee has the authority to engage the services of outside advisers, experts and others to assist the Committee. As discussed in greater detail below, in fiscal 2005, the Committee engaged an outside compensation consulting firm to assist the Committee in its review of the compensation program for executives and other members of management. In connection with its role in developing a reasonable and competitive compensation package for the Company's new CEO, the Committee also relied upon information provided by an outside executive search firm.

Committee Meetings

In fiscal 2005, the Committee met four times with 100% attendance. At the first Committee meeting during the year, all components of the CEO's and other executives' compensation were reviewed and analyzed. Information concerning the CEO's and other executives' compensation was distributed prior to the meeting to ensure that the Committee members had time to ask for additional information, raise questions, and further discuss the compensation amounts.

Compensation Philosophy

The Committee's general compensation philosophy is that total compensation should vary with the Company's performance in achieving financial and non-financial objectives, and any incentive compensation should be closely aligned with the shareholders' interests. This philosophy applies to all of the Company's full-time, salaried employees, with a more significant level of variability and compensation at risk as an employee's level of responsibility increases.

The Committee believes that the strong performance of its executives is a key to the Company's success. Consequently, the Committee has adopted compensation incentives, both short-term and long-term, with a goal of maximizing shareholder value. The Committee feels that these incentives should be implemented with a high degree of responsiveness to the performance of the Company. To achieve this responsiveness, importance is placed upon executive participation in the Company's performance through equity ownership and bonus opportunities based upon the Company's performance. Guided by principles that reinforce the Company's pay-for-performance philosophy, the primary compensation components for all executives, including the CEO and the other Named Executive Officers, consist of salary, bonus opportunities under the Company's 1998 Key Associate Annual Incentive Compensation Plan, as amended and restated in 2001 (the "2001 Bonus Plan"), and equity awards made under the expired 1996 Incentive Plan and the successor Big Lots 2005 Long-Term Incentive Plan (the "2005 Incentive Plan"). The Committee believes these components properly align the financial interests and success of executives with those of the shareholders. In addition, executives are entitled to certain benefits according to the Company's policies and under the Company's health, insurance and retirement plans.

In fiscal 2004, the Committee engaged in a review of the executive compensation program and the philosophy driving the program. In fiscal 2005, the Committee continued this critical review, with the goal of developing the appropriate mix of fixed and variable compensation linked to individual and Company performance. In the course of this review, the Committee sought the advice of an outside compensation consultant and Company management. The Committee also identified the key strategic compensation design priorities for the Company: align executive compensation with shareholder interests; inspire and reward superior performance by executives and the Company; retain executives by paying them competitively; motivate executives to contribute to the Company's success and reward them for their performance; manage executive compensation costs; and continue to focus on corporate governance. The Committee also considered whether any changes should be made to the Company's compensation programs in support of these strategic priorities. With the exception of the restricted stock award to Mr. Fishman discussed below, the Committee chose not to employ equity vehicles in fiscal 2005 that differ between the executives and the broad-based employee population. Instead, it used non-qualified stock options as long-term incentives and for the retention for many employees, including executives.

Executive Compensation Practices

The Committee does not rely solely on predetermined formulas or a limited set of criteria when it evaluates the performance of the CEO, the other Named Executive Officers, and the Company's other executives. Annually, the Committee surveys the executive compensation practices of selected Standard & Poor's Retail Stores Index companies and other companies with similar revenues. Included in this competitive set are discount retailers, dollar stores, deep discount drugstore chains, traditional retailers, and specialty retailers. The Committee's practice is to target total direct compensation levels for the Company's executives at a competitive level when compared with total direct compensation of surveyed companies, adjusted to the Columbus, Ohio market when possible. Total direct compensation includes salary, bonus at the targeted level, and equity incentives. Overall individual performance is measured against the following factors, though these factors vary as required by business conditions:

- long-term strategic goals;
- short-term business goals;
- revenue and profit goals;
- improving operating margins;
- revenue growth versus the industry;
- earnings-per-share growth;
- continued optimization of organizational effectiveness and productivity;
- the development of talent and leadership throughout the Company; and
- the fostering of teamwork and other Company values.

In setting the goals and measuring an executive's performance against those goals, the Committee also considers the performance of its competitors and general economic and market conditions. None of the factors used by the Committee are assigned a specific weight. Instead, the Committee recognizes that the relative importance of these factors may change in order to adapt the Company's operations to specific business challenges and to reflect the changing economic and marketplace conditions. The success of each executive's efforts and their benefits to the Company cannot, of course, be quantifiably measured, but the Committee believes they are vital to the Company's continuing success.

Executive Compensation Components

The compensation program for the Company's executives, including the CEO and the other Named Executive Officers, consists of the following four components:

- salary;
- bonus;

- equity; and
- benefits/perquisites.

The Company's executives, including the CEO and the other Named Executive Officers, are not provided with compensation outside of these components. The Committee believes this is important in order to establish a culture that places value on the contributions of all of the Company's employees.

Salary

Salary is base cash compensation and is determined by individual performance and the competitive market. Salary for each executive is established annually based on a salary range that corresponds to the executive's job responsibilities and overall individual job performance. A minimum salary for the CEO and each other Named Executive Officer has been established in their respective employment agreements.

Bonus

The 2001 Bonus Plan provides for cash compensation to be paid annually when certain Company financial measures ("performance criteria") are achieved. No right to a minimum bonus exists under the 2001 Bonus Plan. Bonuses are only paid when the Company achieves the specific performance criteria established at the Committee's sole discretion. The Committee derives the performance criteria from the Company's planned earnings for the fiscal year, as approved by the Board at the start of the fiscal year.

The Committee also defines the "performance goals," often referred to as floor, target and stretch, at the time that the performance criteria are established. The performance goals equate to a percentage of the salary of the CEO and each of the other Named Executive Officers. Performance goals are established at three levels — the lowest percentage of salary that will be paid if the threshold performance criteria set by the Committee are met but the targeted performance criteria are not fully achieved ("floor"); the percentage of salary that will be paid if the performance criteria set by the Committee are met ("target"); and the percentage of salary that will be paid if the performance criteria are exceeded, subject to a maximum set by the Committee ("stretch"). The bonus awards that may be earned under the 2001 Bonus Plan range from the floor to the stretch performance goals, and include all amounts in between. The target and stretch performance goals for the CEO and each of the other Named Executive Officers has been established in their respective employment agreements, while the floor is set annually by the Committee. For executives other than the CEO and the other Named Executive Officers, the performance goals approved by the Committee are set by position level. Subject to the terms of the employment agreements, the Committee retains the right to adjust the performance goals.

During fiscal 2005, the Company's executives, including the CEO and the other Named Executive Officers, participated in the 2001 Bonus Plan; however, no bonuses were paid under the 2001 Bonus Plan as the performance criteria established by the Committee were not met. As discussed below, one-time bonuses were paid to the CEO and the other Named Executive Officers in fiscal 2005. Mr. Fishman received a bonus in connection with the commencement of his employment in July 2005, and each of the other Named Executive Officers (excluding Mr. Potter) received a bonus in connection with the fulfillment of their obligations under their respective retention packages dated January 6, 2005.

Equity

At the 2005 Annual Meeting, shareholders approved the 2005 Incentive Plan. The 2005 Incentive Plan replaced the 1996 Incentive Plan, which expired on December 31, 2005. Beginning January 1, 2006, equity awards will be issued under the 2005 Incentive Plan.

Like its replacement, the 1996 Incentive Plan is designed to encourage creation of long-term value for the Company's shareholders and equity ownership by the Company's executive officers, including the CEO and the other Named Executive Officers. Each stock option grant allows the executive to acquire common shares of the Company, subject to the completion of a vesting period and continued employment with the Company. Once vested, these common shares may be acquired at a fixed price per share (the fair market value on the grant date) and remain exercisable for the term set by the Committee. An executive's grant amount, if any, is made at the Committee's discretion and is based on competitive market conditions, the position of the executive, and individual and Company performance, and is subject to the limits set forth in the 1996 Incentive Plan. Historically, the vesting period of stock options has been five years and the term has been ten years. During fiscal 2005, the Company granted stock options to certain of the Company's executives, excluding the Named Executive Officers, under the historical vesting period and term. In connection with the commencement of his employment as the Company's CEO, Mr. Fishman was granted a stock option that vests equally over four years and expires seven years after the grant date. Just as the Committee continues to assess the reasonableness of each component of executive compensation, the Committee will continue to review the appropriateness of vesting periods and term.

On November 21, 2005, the Company announced that the Committee, after discussion with the Board, approved accelerating the vesting of stock options awarded on or before February 21, 2005, except those stock options previously granted to Mr. Potter. As Mr. Fishman's hire date was July 11, 2005, the stock options that he held were not accelerated. Additionally, the Committee imposed a holding period that requires all directors, executive vice presidents, and senior vice presidents (including the Company's named executive officers other than Messrs. Fishman and Potter, whose options were not accelerated) to refrain from selling net shares acquired upon any exercise of these accelerated options, until the date on which the exercise would have been permitted under the options' original vesting terms or, if earlier, the executive officer's death, disability or termination of employment. In addition to the perceived positive effect on associate morale and retention, the decision to accelerate vesting of stock options was made primarily to reduce non-cash compensation expense that would have been recorded following the adoption of SFAS No. 123(R) in the first quarter of fiscal year 2006.

During fiscal 2005, the Company also made a restricted stock grant to Mr. Fishman in connection with the commencement of his employment. The restricted stock granted to Mr. Fishman in fiscal 2005 is held in escrow and will vest fully after five years of service or in thirds upon the earlier attainment of common share price targets. This restricted stock award will also vest fully if there is a change in effective control of the Company (as defined in the 1996 Incentive Plan), and will vest on a prorated basis in the event that Mr. Fishman dies or becomes disabled before the lapse of the five year term. The restricted stock award will be forfeited, in whole or in part, as applicable, if Mr. Fishman's employment terminates.

Benefits/Perquisites

The Company's philosophy is to offer employees protection from catastrophic events by offering health (medical, dental and vision) benefits under the Big Lots Associate Benefit Plan (the "Benefit Plan") and by making disability coverage available. Where applicable, employees are responsible for managing benefit choices and balancing their own level of risk and return. During fiscal 2005, the Company offered medical benefits to its executives, including the CEO and the other Named Executive Officers, that were generally available to its other employees under the Benefit Plan, plus the opportunity to participate in the Big Lots Executive Benefit Plan (the "Executive Benefit Plan"). The Executive Benefit Plan is a supplemental health benefit plan that reimburses participants for medical costs incurred but not covered under the Benefit Plan, up to an annual maximum reimbursement of $40,000 per family. Amounts received by participants in the Executive Benefit Plan are treated as taxable income. The Company reimburses each executive receiving taxable benefits under the Executive Benefit Plan for the approximate amount of the executive's income and payroll tax liability relating to the benefits received. Also during fiscal 2005, the Company offered short-term disability coverage to most employees and long-term disability coverage to all salaried employees. For executives, including the CEO and the other Named Executive Officers, the benefit under the long-term disability coverage is greater than for employees below the level of vice president. Under the long-term disability coverage, an executive may receive 67% of his or her monthly salary, up to $25,000 per month, until the executive is no longer disabled or turns age 65, whichever occurs earlier. The premiums for long-term disability coverage are paid by the Company, and the Company pays the executive the amount necessary to hold him or her harmless from the income taxes resulting from premium payments.

The Company also provides executives with certain personal benefits. Personal benefits that are generally available to all officers at or above the level of vice president include the option of using a Company automobile or accepting a monthly allowance, and the use of a cellular telephone and a personal digital assistant. Additionally, the Company provides executives with certain other personal benefits consistent with programs offered to substantially all of the Company's salaried employees, including discounted purchases at the Company's stores and tuition reimbursement.

Comprehensive Review Process

During fiscal 2005, the Committee reviewed all components of executive compensation — salary, bonus, equity and benefits/perquisites — as well as the accumulated realized and unrealized stock option gains. Additionally, the Committee analyzed the market competitiveness and effectiveness of the design of the Company's executive compensation program. In order to assist with these deliberations, the Committee engaged an outside compensation consulting firm.

With respect to the salary component of the Company's executive compensation program, the Committee reviewed the salaries of the Company's top 11 compensated executives and salary survey information from the competitive market. When considering adjustments in base salary, the Committee considered several factors, including compensation history of the executive, market data and competitive factors.

As part of its review of the bonus component of the Company's executive compensation program, the Committee determined that the performance criteria established by the Committee for the fiscal year ended January 29, 2005 ("fiscal 2004") were not satisfied and, accordingly, no bonuses would be paid under the 2001 Bonus Plan for performance in fiscal 2004. For fiscal 2005, the Committee considered the various indicia of Company achievement in order to establish meaningful performance criteria under the 2001 Bonus Plan. The Committee chose to use a formula based on the executive's salary and a measure of the Company's income. To determine eligibility and the amounts of each executive's bonus for fiscal 2005, each executive's salary was multiplied by the performance criteria set by the Committee. The performance criteria established by the Committee for fiscal 2005 were based on the greater of (i) income from continuing operations, (ii) income (loss) from continuing operations before extraordinary items and/or the cumulative effect of a change in accounting principle, or (iii) income before extraordinary items, with each such measure being adjusted to remove the effect of unusual or non-recurring event items. In making adjustments to remove the effect of unusual or non-recurring event items, the Committee took into account: asset impairments under Statement of Financial Accounting Standards No. 144, as amended or superseded; acquisition-related charges; accruals for restructuring and/or reorganization program charges; merger integration costs; merger transaction costs; any loss attributable to the business operations of any entity or entities acquired during fiscal 2005; tax settlement charges; any extraordinary, unusual in nature, infrequent in occurrence, or other non-recurring item charges (not otherwise listed) as described in Accounting Principles Board Opinion No. 30; any extraordinary, unusual in nature, infrequent in occurrence, or other non-recurring item charges (not otherwise listed) in management's discussion and analysis of financial condition and results of operations, selected financial data, financial statements and/or in the footnotes to financial statements, each as appearing in the annual report to shareholders; unrealized losses on investments; charges related to derivative transactions contemplated by Statement of Financial Accounting Standards No. 133, as amended or superseded (such as the amendment by Statement 138, if applicable); and/or compensation charges related to stock option activity.

The Committee also allows bonus payouts at lower than target levels (floor), greater than target levels (stretch), and all amounts in between. The Committee believes the performance criteria established for fiscal 2005 bear a strong relationship to its philosophy of tying executive compensation to shareholder value. The Committee's aim in setting the bonus objectives was to reward 2001 Bonus Plan participants while generating substantial free cash flow and strong earnings growth for the Company.

In light of the Company's results in fiscal 2005, the performance criteria established by the Committee were not satisfied and no bonuses were paid under the 2001 Bonus Plan for performance in fiscal 2005. As discussed below, Mr. Fishman and each of the other Named Executive Officers (excluding Mr. Potter) received one-time bonuses in fiscal 2005. Consequently, fiscal 2005 total cash compensation for the CEO and the other Named Executive Officers (excluding Mr. Potter) was on par with the market average. Excluding the one-time bonuses, the total executive cash compensation remained below the market average, because the Committee's philosophy requires that the Company consistently perform at high levels to deliver at or above-market compensation. Based on its review, the Committee has determined that the CEO's and the other

Named Executive Officers' total compensation was reasonable and not excessive. It should be noted that when the Committee considers any component of the CEO's or another Named Executive Officer's total compensation, the aggregate amounts and mix of all the components, including accumulated (realized and unrealized) equity award gains are taken into consideration in the Committee's decisions.

Internal Pay Equity

In the process of reviewing each component of compensation separately, and in the aggregate, the Committee directs the Company's Human Resources Department to prepare a summary showing the relative compensation of each level of management (e.g., between the CEO and other Named Executive Officers, and then between the CEO and the lower levels of executives). The comparison includes all components of compensation. Prior to hiring Mr. Fishman, the Committee believed that the relative difference between CEO compensation and the compensation of the Company's other executives had not increased significantly over the years. While Mr. Fishman's compensation package increases the relative difference between CEO compensation and the compensation of the Company's other executives, the Committee believes that the increase in compensation from Mr. Potter to Mr. Fishman was appropriate and necessary in order to attract a chief executive with Mr. Fishman's experience. The factors considered with establishing Mr. Fishman's compensation are described in greater detail below.

Compensation for the Chief Executive Officer in Fiscal 2005

In fiscal 2005, in connection with his commencement as Chairman, CEO and President, Mr. Fishman entered into an employment agreement with the Company. Mr. Fishman replaced Mr. Potter on July 11, 2005.

While the Committee generally followed the philosophy and practices described above to determine Mr. Fishman's fiscal 2005 compensation (e.g., tying a substantial portion of total compensation to the Company's future performance with non-qualified stock options, restricted stock, and a performance-based cash bonus opportunity), the Committee believed that it was inappropriate to consider the Company's prior performance when establishing Mr. Fishman's compensation. In setting both the cash-based and equity-based elements of Mr. Fishman's compensation, the Committee made an overall assessment of his ability to formulate and execute the Company's long-term and short-term strategic, operational and business goals. Additionally, in order to attract Mr. Fishman with a compensation package that was competitive within the discount retail industry, the Committee also considered information provided by an outside executive search firm. Accordingly, Mr. Fishman's total compensation reflects a consideration of both competitive forces and the perceived value that Mr. Fishman brings to the Company.

Mr. Potter's compensation was established by his employment agreement dated January 6, 2005, in accordance with the philosophy and practices described above and in recognition of his desire to transition from his role as Chairman, CEO and President.

CEO Salary

Mr. Fishman's salary was established based on the competitive forces and perceived value described above. While his employment agreement does not provide for automatic salary increases, such increases (if any) are made in the sole discretion of the Committee during its annual review process of the Company's executives. The Committee has chosen not to adopt any specific schedule of salary increases, and may adjust Mr. Fishman's salary without regard to adjustments in the salaries of other executives of the Company. Generally, the Committee will look to the factors described above, including Company performance, in determining the amount of Mr. Fishman's salary increase (if any). The Committee does not weigh such factors in advance or tie Mr. Fishman's salary to specific performance criteria. For fiscal 2005, Mr. Fishman's annualized salary was $960,000.

Pursuant to his employment agreement, Mr. Potter's fiscal 2005 annualized salary was $765,000 for the period in which he served as CEO.

CEO Bonus

Mr. Fishman's bonus is determined in accordance with his employment agreement and the 2001 Bonus Plan. Under the 2001 Bonus Plan, Mr. Fishman's bonus is based upon the Company's achievement of specific performance criteria established by the Committee. Although his employment agreement provides him with the opportunity to earn a target bonus equal to 77.08% of his salary and a stretch bonus equal to 165.63% of his salary (no right to a minimum bonus exists in the employment agreement), the establishment of the Company's performance criteria applicable to his performance goals are solely in the Committee's discretion. As a result of the Company's performance in fiscal 2005, Mr. Fishman did not receive a bonus under the 2001 Bonus Plan. Mr. Fishman did, however, received a one-time bonus of $750,000 in connection with the commencement of his employment. The one-time bonus is conditioned upon Mr. Fishman continuing his employment with the Company for one year. Should Mr. Fishman voluntarily terminate his employment within one year, he would be obligated to reimburse the Company the full amount of the one-time bonus.

While Mr. Potter's employment agreement provided him the opportunity to earn a bonus under the 2001 Bonus Plan during the period in which he served as CEO, no bonus was paid to Mr. Potter for fiscal 2005.

CEO Equity

The Committee believes that the grant of a significant quantity of stock options and restricted stock to Mr. Fishman further links Mr. Fishman's interests with the interests of the shareholders. Consequently, Mr. Fishman's equity interests in the Company, through stock options and restricted stock granted under the 1996 Incentive Plan, comprise a substantial portion of his compensation and align his personal rewards and motivation with Company performance and shareholder value. Stock options and restricted stock are granted to Mr. Fishman at the discretion of the Committee. Contemporaneous with his hiring and consistent with the competitive market review conducted by the Committee, Mr. Fishman was awarded a non-qualified stock option to acquire 500,000 common shares of the Company and 100,000 restricted common shares. Mr. Fishman's stock option has an exercise price equal to the fair market value of the Company's common shares at the date the stock option was granted, vests equally over four years, and expires seven years after the grant date. Mr. Fishman's restricted stock will vest fully after five years of service or in one-third increments upon the earlier attainment of common share price targets. The restricted stock award will also vest fully if there is a change in effective control of the Company (as defined in the 1996 Incentive Plan), and will vest on a prorated basis in the event that Mr. Fishman dies or becomes disabled before the lapse of the five year term. The restricted stock award will be forfeited, in whole or in part, as applicable, if Mr. Fishman's employment terminates for any reason before the restrictions lapse.

Given his previously announced intention to transition from his role as CEO, the Committee elected not to grant Mr. Potter equity compensation in fiscal 2005.

Compensation for Other Executives in Fiscal 2005

Compensation for the Company's non-CEO executives, including the "other Named Executive Officers," is based on the Committee's assessment of each executive's contributions to the Company's financial and non-financial goals. The Committee also considers the recommendation of, and relies upon information provided by, the CEO in making its assessment and reaching its decision with respect to non-CEO executives. As described above, the Committee undertakes a comprehensive review to align executives' compensation with shareholders' interests, reinforce the Company's pay-for-performance philosophy, and adhere to the Committee's overall compensation values.

Non-CEO Salary

The salaries paid to the other Named Executive Officers in fiscal 2005 are shown in the "Annual Compensation — Salary" column of the Summary Compensation Table. Each of the other Named Executive Officers is a party to an employment agreement with the Company. Although these employment agreements establish the other Named Executive Officers' respective base salaries, the employment agreements do not provide for any automatic salary increases.

The salary component for the Company's executive officers, other than the CEO and the other Named Executive Officers, is based upon competitive market data for comparable positions at similarly sized companies, as adjusted to reflect the experience and expertise of the individual. Salary adjustments are subjectively determined, and are not formally tied to Company performance.

Non-CEO Bonus

As shown in the "Annual Compensation — Bonus" column of the Summary Compensation Table and accompanying footnote, no bonuses were paid to the other Named Executive Officers in fiscal 2005 in accordance with the 2001 Bonus Plan. The bonus component for the other Named Executive Officers consists of a percentage of salary earned as the Company achieves specific performance criteria established by the Committee. The percentage of salary is generally set by position level, subject to adjustments by the Committee based upon its subjective evaluation of the individual's performance. Each other Named Executive Officer's employment agreement provides an opportunity to earn a target bonus and a stretch bonus, but no right to a minimum bonus exists in the employment agreements. As with the Company's CEO, the establishment of the Company's performance criteria applicable to the other Named Executive Officers, as well as the performance goals of the other non-CEO executives, remains solely in the Committee's discretion. As a result of the Company's performance in fiscal 2005, none of the Company's non-CEO executives received a bonus under the 2001 Bonus Plan.

In connection with the retention packages previously discussed, each of the other Named Executive Officers received a one-time bonus in fiscal 2005. These one-time bonuses are reflected in the "Annual Compensation — Bonus" column of the Summary Compensation Table and accompanying footnote. The purpose of the retention packages was to provide additional incentives for certain executives to remain with the Company while it selected and integrated a new CEO. In accordance with the retention packages, if the executive remained employed with the Company through February 1, 2006, or if the executive was involuntarily terminated before such date for any reason other than cause, he or she would receive a one-time bonus. The one-time retention bonuses paid to Mr. Waite, Mr. Martin, Ms. Bachmann and Mr. Cooper were $375,000, $279,000, $187,500, and $175,000, respectively. Had a bonus been earned by an executive under the 2001 Bonus Plan for fiscal 2005, it would have been reduced by the one-time bonus received by the executive under the retention package.

Non-CEO Equity

The stock options granted to the other Named Executive Officers in fiscal 2005 are shown in the "Long-Term Compensation — Awards" column of the Summary Compensation Table. The equity participation component for executives other than the CEO consists of non-qualified stock options and, in certain instances, restricted stock granted under the 1996 Incentive Plan. Equity awards are typically made near the beginning of each fiscal year during the Committee's annual review process and in an amount determined by position and performance in the prior fiscal year. In addition, equity awards are often made in connection with the promotion of an individual to a greater level of responsibility. The number of common shares covered by each equity award is set in advance by position, subject to adjustment based upon the Committee's subjective evaluation of the individual's performance.

Deductibility of Annual Compensation over $1 Million

Under the Omnibus Budget Reconciliation Act of 1993, provisions were added to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), that generally limit the tax deductions for compensation expense in excess of $1 million paid to the Company's CEO and the four other highest compensated executives. Compensation in excess of $1 million may be deducted if it is "performance-based compensation" within the meaning of Section 162(m). For fiscal 2005, the Company believes it has taken the necessary actions to preserve the deductibility of all payments made under the Company's executive compensation program, with the exception of a portion of the compensation paid to Mr. Fishman. As the Code or the regulations promulgated thereunder change, the Committee intends to take reasonable steps to ensure the continued deductibility of payments under the Company's executive compensation program, while at the same time considering the goals of the Company's executive compensation philosophy and the competitive market for outstanding leadership talent.

Summary

The Committee believes the Company's compensation philosophy and program are designed to foster a performance-oriented culture that aligns employees' interests with those of its shareholders. The Committee further believes that the compensation of the Company's executives is reasonable, appropriate and responsive to the goal of improving shareholder return.

Members of the Compensation Committee

David T. Kollat, Chair
Brenda J. Lauderback
Dennis B. Tishkoff

EXECUTIVE COMPENSATION

Employment Agreements

The Company is a party to employment agreements with certain of its key executives, including the Named Executive Officers. These employment agreements are referred to as the "Key Executive Agreements."

The terms of the Key Executive Agreements are substantially similar and they are described collectively herein except where their terms materially differ. The Key Executive Agreements are intended to assure the Company that it will have the continued dedication, undivided loyalty, and objective advice and counsel from these key executives in the event of a proposed transaction, or the threat of a transaction, which could result in a change of control of the Company. Annually, the Compensation Committee reviews the performance of each key executive to determine whether the key executive's salary and bonus should be adjusted.

Under the terms of their Key Executive Agreements, Messrs. Fishman, Waite, Martin and Cooper and Ms. Bachmann are each to receive a minimum base salary of $960,000, $405,000, $450,000, $350,000 and $325,000, respectively, which amounts are not subject to an automatic increase. As discussed in the Compensation Committee Report on Executive Compensation, the salaries of the Named Executive Officers are determined annually by the Compensation Committee. At its annual review in February 2005, the Compensation Committee established the fiscal 2005 base salaries for Messrs. Fishman, Waite, Martin and Cooper and Ms. Bachmann at $960,000, $500,000, $465,000, $350,000 and $340,000, respectively. In connection with her assuming responsibility for the Company's information technology, Ms. Bachmann's base salary was subsequently increased to $375,000 in August 2005.

Under the terms of his Key Executive Agreement, Mr. Potter will continue to be employed by the Company for two years following his resignation as CEO in July 2005. During this period, Mr. Potter will receive a base salary of $382,500 and will be eligible to participate in the Company's benefit plans and such other programs as the Company provides for its employees. At the end of Mr. Potter's employment, he will receive a payment of $765,000 in exchange for two-year non-competition and non-solicitation covenants.

Bonuses are not payable under the Key Executive Agreements unless the Company achieves a minimum threshold of its performance criteria. For fiscal 2005, Mr. Fishman's bonus was subject to a maximum of 165.63% of his base salary. By amendment to his Key Executive Agreement, this maximum amount was increased to 170% of his base salary beginning in fiscal 2006. Also for fiscal 2005, Messrs. Waite's, Martin's, and Cooper's and Ms. Bachmann's bonuses established by the Compensation Committee were subject to a maximum of 150%, 120%, 100% and 100% of their respective base salaries. Mr. Potter was eligible for a bonus only through the period in which he served as CEO.

The Key Executive Agreements require that the key executive devote his or her full business time to the affairs of the Company and prohibit the key executive from competing with the Company during employment and for a one-year period thereafter, in the case of Messrs. Fishman, Waite, Martin, and Cooper and Ms. Bachmann, and during employment and for a two-year period thereafter, in the case of Mr. Potter. The period is reduced to six months for all key executives in the event of termination of employment following a "Change of Control," as such term is defined in the Key Executive Agreements.

Under the Key Executive Agreements, each of the key executives' employment may be terminated by the Company for cause, as defined therein. If a key executive is terminated for cause, the Company has no further obligation to pay any compensation or to provide benefits to the key executive. If Mr. Fishman is terminated without cause, he will be entitled to receive continued salary payments and benefits for two years and will be eligible to receive a pro-rata bonus for the fiscal year in which the termination occurs. Should Messrs. Waite, Martin or Cooper or Ms. Bachmann be terminated without cause, the affected key executive will be entitled to receive continued salary payments and benefits for one year and will be eligible to receive a pro-rata bonus for the fiscal year in which the termination occurs. If Mr. Potter is terminated without cause, he will be entitled to receive benefits for two years following his resignation as CEO and the payment for non-competition described above.

Messrs. Fishman's, Waite's, Martin's and Cooper's and Ms. Bachmann's Key Executive Agreements provide that in the event the key executive is terminated within 24 months of a Change of Control, the affected key executive will receive a lump sum payment (net of any applicable withholding taxes) in an amount equal to two years of the key executive's then-current salary and two years of the key executive's then-current annual stretch bonus, and will be entitled to receive continued benefits for two years, in the case of Mr. Fishman, and one year, in the case of Messrs. Waite, Martin and Cooper and Ms. Bachmann. Mr. Potter's Key Executive Agreement provides that his employment shall automatically terminate in the event that a Change of Control occurs during the first 12 months after he ceases to serve as CEO, and he will then receive a lump sum payment (net of any applicable withholding taxes) in an amount equal to $4,590,000 and will be entitled to receive continued benefits for two years.

A Change of Control of the Company would also cause each of the key executives to receive a payment (the "Tax Gross-Up Amount") in the amount necessary to hold them harmless from the effects of Sections 280G and 4999 of the Code, which Code sections could subject the payments due under these Key Executive Agreements to excise tax liability (see the "Executive Change In Control Severance Agreements" section for more information). The compensation payable on account of a Change of Control may be subject to the deductibility limitations of Sections 162(m) and 280G of the Code.

Executive Change in Control Severance Agreements

Since April 18, 1989, the Company has maintained Executive Severance Agreements with many of its key officers and employees (currently approximately 70 persons). The agreements expire on the anniversary of their execution and are automatically extended on an annual basis unless the Company provides at least 90 days notice that any particular agreement will not be extended. The agreements provide for severance benefits if, within 24 months after a Change in Control (as defined in the agreements and below), the key officer or employee's employment is terminated by the Company (other than for Cause, as defined in the agreements) or the key officer or employee resigns because of a material change in the circumstances of his or her employment. For purposes of the agreements, "Change in Control" means any one or more of the following: (i) any person or group (as defined for purposes of Section 13(d) of the Exchange Act) becomes the beneficial owner of, or has the right to acquire (by contract, stock option, warrant, conversion of convertible securities or otherwise), 20% or more of the outstanding equity securities of the Company entitled to vote for the election of directors; (ii) a majority of the Board is replaced within any period of two years or less by directors not nominated and approved by a majority of the directors in office at the beginning of such period (or their successors so nominated and approved), or a majority of the Board at any date consists of persons not so nominated and approved; or (iii) the shareholders of the Company approve an agreement to merge or consolidate with another corporation or an agreement to sell or otherwise dispose of all or substantially all of the Company's assets (including without limitation, a plan of liquidation). Notwithstanding these provisions, the agreements provide that a Change in Control shall not result from a transaction in which the Company exchanges less than 50% of its then outstanding equity securities for 51% or more of the outstanding equity securities of another corporation. The agreements provide for the following severance benefits: (i) for certain key officers having a position of vice president (or above) of the Company (or its affiliates), a lump-sum payment equal to 200% of the key officer's then-current annual salary and stretch bonus; or (ii) for other employees having a position of departmental director of the Company (or its affiliates), a lump-sum payment equal to 100% of the employee's then-current annual salary and stretch bonus. Messrs. Fishman, Waite, Martin, Cooper and Potter and Ms. Bachmann are not a party to such an agreement, but each has substantially similar provisions contained in his or her respective Key Executive Agreement. The key officer or employee will also become entitled to reimbursement of legal fees and expenses incurred by the key officer or employee in seeking to enforce his or her rights under his or her agreement. Additionally, to the extent that payments to the key officer or employee pursuant to his or her agreement (together with any other amounts received by the key officer or employee in connection with a Change in Control) would result in triggering the provisions of Sections 280G and 4999 of the Code, each agreement provides for the payment of a Tax Gross-Up Amount such that the key officer or employee receives, net of excise taxes, the amount he or she would have been entitled to receive in the absence of the excise tax provided in Section 4999 of the Code. The compensation payable on account of a Change in Control may be subject to the deductibility limitations of Sections 162(m) and/or 280G of the Code. In addition, the 1996 Incentive Plan provides for immediate vesting of all outstanding stock options and restricted common shares in the event of such a Change in Control (see the "Fiscal Year End Option Values" table).

Summary Compensation Table

The following Summary Compensation Table sets forth the individual compensation earned by or paid to the Named Executive Officers (Mr. Fishman, the Company's CEO; each of the four other most highly compensated executive officers of the Company in fiscal 2005; and Mr. Potter who served as the Company's CEO until July 11, 2005) for services rendered to the Company during each of the past three fiscal years.

		Annual Compensation			Long-Term Compensation		
					Awards		
Name and Position	Fiscal Year	Salary ($)	Bonus ($)(a)	Other Annual Compensation ($)(b)	Restricted Stock Awards ($)(c)	Securities Underlying Options (#)(d)	All Other Compensation ($)(e)(f)
Steven S. Fishman (g)	2005	535,385	750,000	134,315	1,125,000	500,000	0
Chairman, Chief Executive	2004	—	—	—	—	—	—
Officer and President	2003	—	—	—	—	—	—
Brad A. Waite	2005	500,040	375,000	7,131	0	0	21,066
Executive Vice President,	2004	408,193	0	57,397	542,500	75,000	19,795
Human Resources, Loss Prevention,	2003	387,757	128,700	3,478	0	75,000	16,621
Real Estate and Risk Management							
John C. Martin (h)	2005	462,692	279,000	5,311	0	0	8,400
Executive Vice President,	2004	450,000	0	51,933	325,500	0	8,200
Merchandising	2003	77,885	0	82,001	0	150,000	0
Lisa M. Bachmann	2005	352,510	187,500	6,766	0	0	8,400
Senior Vice President,	2004	322,702	0	2,236	173,600	50,000	8,200
Information Technology/	2003	308,462	85,250	5,528	0	30,000	8,000
Merchandise Planning and Allocation							
Joe R. Cooper	2005	350,027	175,000	4,587	0	0	8,400
Senior Vice President and	2004	302,923	0	5,050	173,600	100,000	8,209
Chief Financial Officer	2003	198,543	33,000	2,895	0	10,000	7,896
Michael J. Potter (i)	2005	551,716	0	2,206	0	0	16,385
Former Chairman, Chief	2004	762,692	0	5,177	0	350,000	15,362
Executive Officer and President	2003	742,346	412,500	6,838	0	350,000	13,053

(a) Mr. Fishman's fiscal 2005 bonus was a one-time sign-on bonus paid in connection with the commencement of his employment with the Company. The other Named Executive Officers, excluding Mr. Potter, each received bonuses in fiscal 2005 in connection with the retention packages awarded in January 2005. No bonuses were paid for fiscal 2005 under the 2001 Bonus Plan.

(b) Except for Mr. Fishman in fiscal 2005, Mr. Waite in fiscal 2004 and Mr. Martin in fiscal 2004 and fiscal 2003, perquisites and other personal benefits for fiscal years 2003, 2004 and 2005 did not exceed the lesser of $50,000 or 10% of each Named Executive Officer's salary and bonus, and these amounts were omitted pursuant to SEC rules. The amounts presented in this column, other than for Mr. Fishman in fiscal 2005, Mr. Waite in fiscal 2004 and Mr. Martin in fiscal 2004 and fiscal 2003, represent the reimbursement for the payment of taxes. Of the amounts presented in this column for Mr. Fishman in fiscal 2005, Mr. Waite in fiscal 2004 and Mr. Martin in fiscal 2004 and fiscal 2003, $38,561, $14,089, $10,836 and $29,979, respectively, represent the reimbursement for the payment of taxes. In fiscal 2005, Mr. Fishman received benefits in the amount of $123,878 in connection with his relocation to near the Company's headquarters. In fiscal 2004, Mr. Waite received benefits in the amount of $39,788 under the Executive Benefit Plan. In connection with his relocation near the Company's headquarters, Mr. Martin received benefits in the amount of $30,021 in fiscal 2004 and $79,312 in fiscal 2003.

(c) Restricted stock awards made pursuant to the 1996 Incentive Plan. The restricted stock awarded to Mr. Fishman in fiscal 2005 was in connection with the commencement of his employment with the Company. Mr. Fishman's restricted stock is scheduled to vest in one-third increments upon the earlier of the attainment of common share price targets or fully after five years of service to the Company. The restricted stock awarded to Messrs. Waite, Martin and Cooper and Ms. Bachmann in fiscal 2004 is scheduled to vest equally over the first three anniversaries of the grant date and will fully vest if the grantee is terminated by the Company for any reason other than cause before the lapse of such three year period. Dividends payable prior to the vesting of the restricted stock are deferred until vesting occurs. The dividends will be forfeited if the restricted stock does not vest. Values shown in the above table are based on the closing market price for the Company's common shares on the date of each grant — $11.25 on July 11, 2005 for Mr. Fishman and $10.85 on January 6, 2005 for Messrs. Waite, Martin and Cooper and Ms. Bachmann. At the end of fiscal 2005, the remaining unvested restricted stock had a value, based on the closing market price of $13.74 for the Company's common shares on January 28, 2006, of $1,374,000 for Mr. Fishman's 100,000 shares, $458,009 for Mr. Waite's 33,334 shares, $274,800 for Mr. Martin's 20,000 shares, $146,565 for Ms. Bachmann's 10,667 shares, and $146,565 for Mr. Cooper's 10,667 shares. Mr. Potter does not hold any restricted stock.

(d) Non-qualified stock options granted pursuant to the 1996 Incentive Plan.

(e) Company matching contribution pursuant to the Big Lots Savings Plan and the Big Lots, Inc. Supplemental Savings Plan. The matching contribution for each of the Named Executive Officers other than Mr. Fishman was $8,400 in fiscal 2005. The matching contribution for each of the Named Executive Officers other than Messrs. Fishman and Cooper was $8,200 in fiscal 2004. The matching contribution for Mr. Cooper in fiscal 2004 was $8,209. In fiscal 2003, Messrs. Waite, Cooper and Potter and Ms. Bachmann received matching contributions of $8,000, $7,896, $8,000 and $8,000, respectively. Mr. Fishman is not yet eligible to receive matching contributions pursuant to the Big Lots Savings Plan and the Big Lots, Inc. Supplemental Savings Plan.

(f) Accruals pursuant to the Big Lots, Inc. Supplemental Pension Plan for Mr. Waite were $12,666, $11,595 and $8,621 for fiscal 2005, fiscal 2004 and fiscal 2003, respectively. Accruals for Mr. Potter were $7,985, $7,162 and $5,053 for fiscal 2005, fiscal 2004 and fiscal 2003, respectively. Messrs. Fishman, Martin and Cooper and Ms. Bachmann are not participants in the Big Lots, Inc. Supplemental Pension Plan.

(g) Mr. Fishman's employment with the Company commenced on July 11, 2005.

(h) Mr. Martin's employment with the Company commenced on December 1, 2003.

(i) Mr. Potter resigned his position as Chairman, CEO and President on July 11, 2005.

Option Grants During Fiscal 2005

The following table reflects the number and value of stock options granted to the Named Executive Officers in fiscal 2005.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (c)	
Name	Securities Underlying Options Granted(#)(a)	Pct. of Total Options Granted to Employees in Fiscal Year(%)(b)	Exercise Price Per Share ($)	Expiration Date	5% ($)	10% ($)
Steven S. Fishman	500,000	25.0	11.19	07/11/2012	3,518,665	8,916,989
Brad A. Waite	0	0.0	—	—	—	—
John C. Martin	0	0.0	—	—	—	—
Lisa M. Bachmann	0	0.0	—	—	—	—
Joe R. Cooper	0	0.0	—	—	—	—
Michael J. Potter	0	0.0	—	—	—	—

(a) Stock options granted pursuant to the 1996 Incentive Plan. Mr. Fishman's option vests equally over four years without regard to the attainment of any performance goals. Stock options were granted at the fair market value of the Company's common shares on the grant date.

(b) Based on 1,999,800 non-qualified stock options granted to all associates in fiscal 2005.

(c) Assumes a respective 5% or 10% annualized appreciation in the underlying common share price from the date of grant to the expiration date less the aggregate exercise price. The ultimate amount realized will depend on the market value of the common shares at a future date.

Option Exercises During Fiscal 2005 and Fiscal Year End Option Values

The following table reflects the aggregate stock option exercises by the Named Executive Officers during fiscal 2005 and the number and value of exercisable and unexercisable stock options held by the Named Executive Officers at January 28, 2006.

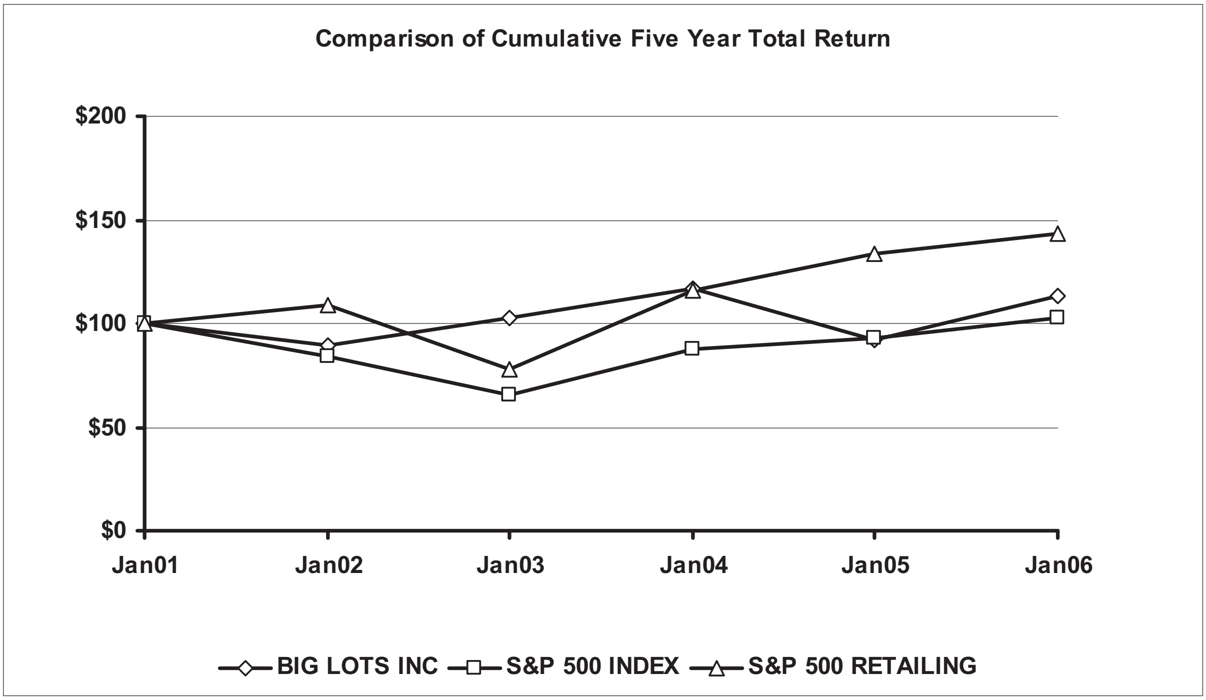
			Number of Common Shares Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options at Fiscal Year-End (b)($)	
Name	Shares Acquired on Exercise (#)	Value Realized (a)($)	Exercisable	Unexercisable	Exercisable	Unexercisable
Steven S. Fishman	0	0	0	500,000	0	1,275,000
Brad A. Waite	65,625	32,014	562,500	0	707,125	0
John C. Martin	0	0	150,000	0	0	0
Lisa M. Bachmann	0	0	130,000	0	86,700	0
Joe R. Cooper	0	0	160,000	0	102,813	0
Michael J. Potter	80,312	40,299	1,157,500	680,000	1,612,300	955,700

(a) Difference between the fair market value of the common shares on the dates of exercise and the applicable stock option exercise prices.

(b) The value of in-the-money unexercised stock options is based on the fair market value of the Company's common shares ($13.74) at January 28, 2006, minus the aggregate stock option exercise prices.

Comparison of Five Year Total Shareholder Return

The following graph illustrates a five year comparison of cumulative total return for the Company, the Standard & Poor's 500 Index, and the Standard & Poor's Retail Stores Composite Index.



	Jan. 2001 (a)	Jan. 2002	Jan. 2003	Jan. 2004	Jan. 2005	Jan. 2006
Big Lots, Inc.	$100.00	$ 89.30	$102.98	$116.41	$ 91.94	$113.19
S&P 500 Retailing	$100.00	$108.45	$ 77.79	$116.28	$133.46	$142.98
S&P 500 Index	$100.00	$ 84.29	$ 65.35	$ 87.94	$ 92.64	$102.54

(a) Assumes $100 invested on January 28, 2001, in the Company's common shares compared to the same amount invested in the other funds shown at the same time. Dividends, if any, are assumed to be reinvested.

Retirement Plans

Pension Plan

The Company maintains a funded noncontributory defined benefit pension plan (the "Pension Plan") for certain employees whose hire date preceded April 1, 1994. Consequently, Messrs. Fishman, Martin and Cooper and Ms. Bachmann may not participate in the Pension Plan. The Pension Plan is intended to qualify under the Code and comply with the Employee Retirement Security Income Act of 1974, as amended. The amount of the Company's annual contribution to the Pension Plan is actuarially determined to accumulate sufficient funds to maintain projected benefits. Effective January 1, 1993, the computation of annual retirement benefits payable upon retirement under the Pension Plan is 1% of average annual compensation during the participant's highest five consecutive year period multiplied by the years of service up to a maximum of 25. This benefit is payable when a participant reaches the normal retirement age of 65. However, the Pension Plan does provide an early retirement option, and employment beyond the normal retirement age is permitted by agreement with the Company. For purposes of calculating benefits under the Pension Plan, compensation is defined to include a two month equivalent of the total cash remuneration (including overtime) paid for services rendered during a plan year prior to salary reductions pursuant to Sections 401(k) or 125 of the Code, including bonuses, incentive compensation, severance pay, disability payments and other forms of irregular payments. Effective January 1, 1996, the benefits accrued for certain highly compensated individuals, including all executive officers, were frozen at the then current levels.

The table below illustrates the amount of annual benefits payable at age 65 to a person in the specified average compensation and years of service classifications under the Pension Plan combined with the Supplemental Pension Plan (as defined below).

Final Average Compensation	Years of Service			
	10	15	20	25
$100,000	$10,000	$15,000	$20,000	$25,000
$125,000	$12,500	$18,750	$25,000	$31,250
$150,000	$15,000	$22,500	$30,000	$37,500
$175,000	$17,500	$26,250	$35,000	$43,750
$200,000 and above	$19,700	$29,550	$39,400	$49,250

The maximum annual benefit payable under the Pension Plan is restricted by the Code ($170,000 for calendar year 2005). At December 31, 2005, the maximum five year average compensation taken into account for benefit calculation purposes was $197,000. The compensation taken into account for benefit calculation purposes is limited by law ($210,000 for calendar year 2005), and is subject to statutory increases and cost-of-living adjustments in future years. At December 31, 2005, Messrs. Waite and Potter had 17 and 14 years of credited service, respectively. Income recognized as a result of the exercise of stock options is disregarded in computing benefits under the Pension Plan. A participant may elect whether the benefits are paid in the form of a single life annuity, a joint and survivor annuity or as a lump sum upon reaching the normal retirement age of 65.

Supplemental Pension Plan

The Company maintains a non-qualified supplemental employee retirement plan ("Supplemental Pension Plan") for those executives whose benefits were frozen under the Pension Plan on January 1, 1996. The Supplemental Pension Plan constitutes a contract to pay benefits upon retirement as therein defined. The Supplemental Pension Plan is designed to pay the same benefits in the same amount as if the participants continued to accrue benefits under the Pension Plan. The Company has no obligation to fund the Supplemental Pension Plan, and all assets and amounts payable under the Supplemental Pension Plan are subject to the claims of general creditors of the Company. The table above illustrates the amount of annual benefit payable at age 65 to a person in the specified average compensation and years of service classification under the Pension Plan combined with the Supplemental Pension Plan.

Savings Plan

All of the Named Executive Officers, as well as substantially all other full-time employees of the Company and its subsidiaries, are eligible to participate in the Big Lots Savings Plan (the "Savings Plan"), a qualified deferred compensation plan. In order to participate in the Savings Plan, an eligible employee must satisfy applicable age and service requirements and must make contributions to the Savings Plan ("Participant Elective Contributions").

Participant Elective Contributions are made through authorized payroll deductions to one or more of the several investment funds established under the Savings Plan. One of the funds is a stock fund that is invested solely in common shares of the Company. All Participant Elective Contributions are matched by the Company ("Employer Matching Contributions") at a rate of 100% for the first 2% of salary contributed, and 50% for the next 4% of salary contributed; however, only Participant Elective Contributions of up to 6% of the employee's compensation will be matched.

Each participant has a nonforfeitable right to all accrued benefits pertaining to Participant Elective Contributions. Each participant also has a nonforfeitable right to all accrued benefits pertaining to Employer Matching Contributions in the event of retirement or other termination of employment (a) on or after the participant's 65th birthday, (b) on account of disability, or (c) by reason of death. A participant whose employment terminates under other circumstances will have a nonforfeitable right to a portion of accrued benefits pertaining to Employer Matching Contributions determined under a schedule based on years of service. All other unvested accrued benefits pertaining to Employer Matching Contributions will be forfeited.

Supplemental Savings Plan

The Company maintains the Big Lots Supplemental Savings Plan (the "Supplemental Savings Plan"), a non-qualified deferred compensation plan for those executives participating in the Savings Plan who desire to contribute more than the amount allowable under the Savings Plan. The Supplemental Savings Plan constitutes a contract to pay deferred salary, and limits deferrals in accordance with prevailing tax law. The Supplemental Savings Plan is designed to pay the deferred compensation in the same amount as if the contributions had been made to the Savings Plan. The Company has no obligation to fund the Supplemental Savings Plan, and all assets and amounts payable under the Supplemental Savings Plan are subject to the claims of general creditors of the Company and its affiliates.

Employee Equity Compensation

At the 2005 Annual Meeting, shareholders approved the 2005 Incentive Plan. The 2005 Incentive Plan replaced the 1996 Incentive Plan, which expired on December 31, 2005. Beginning January 1, 2006, equity awards will be issued under the 2005 Incentive Plan.

The 1996 Incentive Plan and the 2005 Incentive Plan are each administered by the Compensation Committee. Both plans authorize the grant of incentive and nonqualified stock options, stock appreciation rights ("SARs"), restricted stock and performance unit awards (collectively referred to herein as "Awards"), any of which may be granted on a stand alone, combination or tandem basis. The Compensation Committee determines the individuals to whom Awards are to be made; the number of common shares underlying each Award; the term of the Award; its vesting, exercise period or settlement; the type of consideration, if any, to be paid to the Company upon exercise of an Award; and all other terms and conditions of the Awards. The purpose of the plans is to provide a flexible, long-term vehicle to attract, retain and motivate officers and employees.

As a result of its expiration, no additional Awards may be made under the 1996 Incentive Plan. The number of common shares available for issuance under the 2005 Incentive Plan consists of: (i) an initial allocation of 1,250,000 common shares; (ii) 2,001,142 common shares, the number of common shares that were available under the 1996 Incentive Plan upon its expiration; and (iii) an annual increase equal to 0.75% of the total number of issued common shares (including treasury shares) as of the start of each of the Company's fiscal years during which the 2005 Incentive Plan is in effect. Of this number, no more than 33⅓ percent of all common shares issued during the term of the 2005 Incentive Plan may be issued in the form of restricted stock, restricted stock units and performance units and no more than 5,000,000 common shares may be issued pursuant to grants of incentive stock options during the term of the 2005 Incentive Plan. A participant may receive multiple Awards under the 2005 Incentive Plan. Awards intended to qualify as "qualified performance-based compensation" under Section 162(m) of the Code ("Section 162(m)") are limited to: (i) 2,000,000 restricted common shares per participant annually; (ii) 3,000,000 common shares underlying stock options and SARs per participant during any three consecutive calendar years; and (iii) $6,000,000 cash through performance units per participant during any three consecutive calendar years. Also, the 2005 Incentive Plan provides that the total number of common shares underlying outstanding Awards made under the 2005 Incentive Plan, the 1996 Incentive Plan, the Big Lots, Inc. Executive Stock Option and Stock Appreciation Rights Plan, and the Director Stock Option Plan may not exceed 15% of the Company's issued and outstanding common shares (including treasury shares) as of any date.

Awards under the 2005 Incentive Plan may be made to any salaried employee, consultant or advisor of the Company or its affiliates, as designated by the Compensation Committee. Historically, stock options have been granted to approximately 2,300 employees in any given year; however, the Compensation Committee anticipates that this number will be reduced to approximately 425 employees for fiscal 2006. From time to time, the Compensation Committee will determine who will be granted Awards, the number of shares subject to such Awards, and all other terms of Awards.

The 2005 Incentive Plan provides for the Awards of stock options which may be either incentive stock options or non-qualified stock options. For both incentive and non-qualified stock options, the exercise price may be not less than 100% of the fair market value of a common share of the Company at the time the stock option is granted. Any stock option intended to qualify as an incentive stock option must meet all requirements of Section 422 of the Code.

The Compensation Committee may award SARs, shares of restricted stock, restricted stock units and performance units, subject to such conditions and restrictions as the 2005 Incentive Plan specifies and otherwise as the Compensation Committee may determine. These awards may be made alone or in tandem with other Awards. SARs, restricted stock units and performance units may be payable upon vesting in cash or may be convertible into common shares as determined by the Compensation Committee. Upon a Change in Control, as defined in the applicable plan, all Awards outstanding under the 1996 Incentive Plan and the 2005 Incentive Plan automatically become vested.

No Award under the 2005 Incentive Plan may be assigned or transferred by the grantee other than by will or the laws of descent and distribution or as may otherwise be permitted by the Compensation Committee. In the absence of these exceptions, all rights may be exercised during the grantee's lifetime only by the grantee.

The Board may from time to time, at its discretion, amend or terminate the 2005 Incentive Plan, except that no such amendment or termination may impair any rights under any Award made prior to the amendment's effective date without the consent of the grantee. The 2005 Incentive Plan expires on May 16, 2012.

Equity Compensation Plan Information

The following table summarizes information, as of January 28, 2006, relating to equity compensation plans of the Company pursuant to which the Company's common shares may be issued.

Plan Category	Number of common shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of common shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	10,690,745(1)(2)	$14.52	3,395,312(3)
Equity compensation plans not approved by shareholders	—	—	—
Total	10,690,745	$14.52	3,395,312

(1) Includes stock options granted under the Director Stock Option Plan, the 1996 Incentive Plan, and the 2005 Incentive Plan.

(2) The common shares issuable upon exercise of outstanding stock options granted under each shareholder-approved plan are as follows:

Director Stock Option Plan	383,439
1996 Incentive Plan	10,297,306
2005 Incentive Plan	10,000

(3) The common shares available for issuance under each shareholder-approved plan are as follows:

Director Stock Option Plan	154,170
1996 Incentive Plan	—
2005 Incentive Plan	3,241,142

The 1996 Incentive Plan expired on December 31, 2005. The number of common shares available for issuance under the 2005 Incentive Plan is adjusted annually by adding 0.75% of the total number of issued common shares (including treasury shares) as of the start of each of the Company's fiscal years that the 2005 Incentive Plan is in effect.

Executive Benefit Plan

Most of the Company's executive officers, including each of the Named Executive Officers, are eligible to participate in the Executive Benefit Plan. The Executive Benefit Plan is a supplemental health benefit plan which reimburses participants for medical costs incurred but not covered by the Benefit Plan, up to an annual maximum reimbursement of $40,000 per participant. Amounts received exceeding the applicable threshold by the Named Executive Officers are included in the amounts reflected in the values of personal benefits received by such individuals. Amounts received by participants in the Executive Benefit Plan are treated as taxable income. The Company reimburses each executive officer receiving taxable benefits under the Executive Benefit Plan the approximate amount of the executive officer's income and payroll tax liability relating to the benefits received.

PROPOSAL TWO: APPROVAL OF THE BIG LOTS 2006 BONUS PLAN

Introduction

The Board adopted the 2006 Bonus Plan on April 3, 2006. The 2006 Bonus Plan is being submitted to the shareholders for approval at the Annual Meeting in an effort to ensure that the compensation payable under the 2006 Bonus Plan will be deductible as performance-based compensation. Section 162(m) governs the corporate tax deductibility of annual compensation exceeding $1,000,000 paid to the CEO and the four other most highly compensated executive officers. Corporate tax deductions for certain types of compensation, including performance-based compensation, are generally allowed. To qualify under Section 162(m), the Company must obtain shareholder approval of the 2006 Bonus Plan. By approving the 2006 Bonus Plan, the shareholders will also be approving, among other things, the material terms of the performance criteria (as defined below) used to determine whether bonus awards are earned, the plan's eligibility requirements, and the limits on the awards that may be made pursuant to the plan.

The 2006 Bonus Plan supersedes and replaces the 2001 Bonus Plan, the Company's existing performance-based compensation plan, which was initially approved by the Company's shareholders at the 1998 Annual Meeting and re-approved at the 2001 Annual Meeting. In the event that shareholder approval of the 2006 Bonus Plan is not received, some or all of the compensation earned under the 2006 Bonus Plan may not be deductible by the Company. Although the Company strives to preserve the deductibility of payments, to maintain flexibility in compensating executive officers in a manner consistent with the Company's compensation philosophy, the Compensation Committee has not adopted a policy that all compensation must be deductible under Section 162(m). Set forth below is a summary of the 2006 Bonus Plan, which summary is qualified in its entirety by reference to the 2006 Bonus Plan, a copy of which is attached hereto as Appendix I.

Purpose

The purpose of the 2006 Bonus Plan is to advance the interests of the Company by attracting, retaining and motivating employees; aligning participants' interests with those of the Company's shareholders; and qualifying compensation paid to the Company's executive officers as "performance-based compensation" within the meaning of Section 162(m).

Administration and Description of Bonus Awards

The 2006 Bonus Plan will be administered by the Compensation Committee. Each Compensation Committee member will be an "outside director" within the meaning of Section 162(m). As plan administrator, the Compensation Committee is charged with the responsibility for designating eligible participants and selecting the applicable performance criteria and performance goals used to calculate the bonus award, if any.

The target and stretch performance goals for the Named Executive Officers have been established in their respective employment agreements, and the floor performance goal will be set annually by the Compensation Committee. For the other participants, the performance goals are set by position. Subject to the executives' employment agreements, the Compensation Committee has the authority to modify the performance goals for all participants.

The performance criteria may be based on one or more financial measures calculated in accordance with accounting principles generally accepted in the United States of America, as the same appear in the Company's periodic filings with the SEC and/or the Company's annual report to shareholders, and as may be adjusted in recognition of unusual or non-recurring events, transactions and accruals. Annually, the Compensation Committee, in its sole discretion, will select the performance criteria and equitable adjustments applicable to the performance period, which is generally a full fiscal year. The performance criteria include, without limitation, net income, income from continuing operations, and income from continuing operations before extraordinary items and/or the cumulative effect of a change in accounting principles. The performance criteria and equitable adjustments are described in their entirety on Appendix A to the 2006 Bonus Plan.

The 2006 Bonus Plan provides for cash compensation to be paid annually when the performance criteria are achieved. No right to a minimum bonus exists under the 2006 Bonus Plan. For each performance period, the Compensation Committee will establish an objective compensation payout formula for each participant based on the achievement of performance criteria, the outcomes of which are substantially uncertain at the time so established, and the determination of performance goals. The Compensation Committee derives its performance criteria from the Company's planned earnings for the fiscal year, as approved by the Board at the start of the fiscal year.

The Compensation Committee also defines the performance goals at the time that the performance criteria are established. The target and stretch performance goals for each of the Named Executive Officers have been established in their respective employment agreements, while the floor is set annually by the Committee. For executives other than the Named Executive Officers, the performance goals approved by the Committee are set by position level. Subject to the terms of the employment agreements, the Committee retains the right to adjust the performance goals.

The 2006 Bonus Plan provides that bonus awards in any fiscal year may not exceed the maximum bonus amount that is established annually for each participant pursuant to a predetermined objective formula, subject to a maximum annual limit of $3,000,000. Under this payout formula, the maximum bonus payment for any performance period is the product of (i) the participant's stretch performance goal for the performance period, and (ii) the performance criteria for the performance period multiplied by a pre-established factor set by the Compensation Committee.

The level of achievement of the performance criteria at the end of the performance period will be used to determine the amount of each participant's bonus award, if any. After the end of the performance period, the Compensation Committee will determine the amount of the bonus award earned by each participant under the payout formula. Payment of the bonus award to the participant will be made, subject to the participant's right to defer the same, upon certification by the Compensation Committee, in writing, that the threshold performance criteria have been satisfied and the bonus award has been calculated in accordance with the payout formula.

In the event a participant voluntarily terminates employment with the Company prior to the day on which payments of bonus awards are made under the 2006 Bonus Plan for a performance period, the participant forfeits all rights to receive a bonus award. At the discretion of the Compensation Committee, pro-rated bonus awards may be made to participants whose employment terminates by reason of retirement, disability or death during a performance period.

Eligibility

Any employee of the Company and its affiliates determined by the Compensation Committee to be eligible under the 2006 Bonus Plan, which determination shall be in the Compensation Committee's sole discretion, may participate in the 2006 Bonus Plan. For fiscal 2006, the Company anticipates that approximately 400 associates will participate in the 2006 Bonus Plan.

Amendment, Suspension or Termination

The Compensation Committee may amend, in whole or in part, any or all of the provisions of the 2006 Bonus Plan, except as to those terms or provisions that are required by Section 162(m) to be approved by the shareholders, or suspend or terminate the 2006 Bonus Plan entirely; provided, however, that no such amendment, suspension or termination may, without the consent of the affected participants, reduce the right of participants to any payment due under the 2006 Bonus Plan.

Plan Benefits

The exact amount of the awards under the 2006 Bonus Plan, if any, that will be allocated to or received by the participants is at the discretion of the Compensation Committee and dependent upon the future performance of the Company, and therefore cannot be determined at this time. The annual bonuses paid under the 2001 Bonus Plan to the Named Executive Officers of the Company for fiscal years 2003, 2004 and 2005 are set forth in the bonus column of the Summary Compensation Table.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO APPROVE THE 2006 BONUS PLAN.

INDEPENDENT AUDITORS

The Audit Company engaged Deloitte & Touche LLP as the Company's independent public accountants to audit its consolidated financial statements for fiscal 2005. Deloitte & Touche LLP has served as the Company's independent auditors since October 1989. The Audit Committee annually selects the Company's independent auditors. The Audit Committee has not selected its independent auditors for fiscal 2006. The Audit Committee, in selecting its independent auditors for fiscal 2006, intends to adhere to the laws, regulations and rules concerning auditor independence required by the SEC and the NYSE. Services provided by and fees paid to Deloitte & Touche LLP in fiscal 2005 and fiscal 2004 are described in the Audit Committee Report.

A representative of Deloitte & Touche LLP will be present at the Annual Meeting to respond to appropriate questions and to make a statement if so desired.

SHAREHOLDER PROPOSALS

Any proposals of shareholders which are intended to be presented at the Company's 2007 Annual Meeting must be received by the Company at its principal executive offices by December 20, 2006, to be eligible for inclusion in next year's Proxy Statement. Such proposals must be submitted in accordance with Rule 14a-8 of the Exchange Act. If a shareholder intends to present a proposal at the 2007 Annual Meeting, but has not sought the inclusion of such a proposal in the Company's 2007 Proxy Statement, such proposal must be received by the Company at its principal executive offices by March 5, 2007, or the Company's management proxies will be entitled to use their discretionary voting authority should such proposal then be raised, without any discussion of the matter in the Company's 2007 Proxy Statement.

ANNUAL REPORT ON FORM 10-K

The Company's fiscal 2005 Annual Report on Form 10-K is included with this Proxy Statement in the Company's 2005 Annual Report to Shareholders. Shareholders may also receive a copy of the Company's fiscal 2005 Annual Report on Form 10-K without charge by writing to: Investor Relations Department, Big Lots, Inc., 300 Phillipi Road, Columbus, Ohio 43228-5311. The Form 10-K may also be accessed on the Company's website at www.biglots.com under the "Investor Relations — Financial Information — SEC Filings" caption.

PROXY SOLICITATION COSTS

This solicitation of proxies is made by and on behalf of the Board. In addition to mailing copies of this Proxy Statement, the accompanying Notice of Annual Meeting of Shareholders, and proxy card to all shareholders of record on the record date, the Company will request brokers and other nominees to forward copies of this material to persons for whom they hold common shares of the Company in order that such common shares may be voted. Solicitation may also be made by the Company's officers and regular employees personally or by telephone, mail or electronic mail. Officers and employees who assist with solicitation will not receive any additional compensation. The cost of the solicitation will be borne by the Company. The Company has also retained Georgeson & Company Inc. to aid in the solicitation of proxies for a fee estimated to be $8,000, plus reasonable out-of-pocket expenses.

OTHER MATTERS

As of the date of this Proxy Statement, the Company knows of no business that will be presented for consideration at the Annual Meeting other than referred to in Proposal One and Proposal Two. If any other matter is properly brought before the Annual Meeting for action by shareholders, proxies in the enclosed form returned to the Company will be voted in accordance with the recommendations of the Board.

By order of the Board of Directors,

CHARLES W. HAUBIEL II
Senior Vice President, General Counsel and Corporate Secretary

April 19, 2006
Columbus, Ohio

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APPENDIX I

BIG LOTS 2006 BONUS PLAN

1. NAME

1.01. The Big Lots 2006 Bonus Plan (the "Plan") is hereby established by Big Lots, Inc., to be effective as of January 29, 2006 (the "Effective Date"), subject to approval by the Company's shareholders no later than June 1, 2006.

2. PURPOSE

2.01. The Plan is designed to: (a) assist the Company and its Affiliates in attracting, retaining and motivating employees; (b) align Participants' interests with those of the Company's shareholders; and (c) qualify compensation paid to Participants who are "Covered Associates" as "other performance-based compensation" within the meaning of section 162(m) of the IRC or a successor provision.

3. DEFINITIONS

3.01. "Acquired Corporation" has the meaning ascribed in Section 3.07.

3.02. "Affiliate" means: (a) a "parent" or a "subsidiary" of the Company, as those terms are defined in Code sections 424(e) and (f), respectively; and (b) any other entity (other than the Company) regardless of its form that directly or indirectly controls, is controlled by or is under common control with, the Company within the meaning of Code section 414(b) but substituting "50 percent" for "80 percent" when determining controlling interest under Code section 414(b).

3.03. "Base Salary" means as to a Performance Period, a Participant's actual gross salary rate in effect on the Determination Date. Such salary shall be before: (a) deductions for taxes and benefits; and (b) deferrals of salary pursuant to Company-sponsored plans.

3.04. "Beneficiary" means the person or persons entitled to receive the interest of a Participant in the event of the Participant's death.

3.05. "Board" means the Board of Directors of the Company.

3.06. "Bonus" means a payment subject to the provisions of this Plan.

3.07. "Change of Control" means any one or more of the following events: (a) any person or group [as defined for purposes of Section 13(d) of the Exchange Act] acquires 35 percent or more of the outstanding equity securities of the Company entitled to vote for the election of directors; (b) a majority of the Board of Directors of the Company then in office is replaced within any period of twelve months or less by directors not nominated and approved by a majority of the directors in office at the beginning of such period (or their successors so nominated and approved); or (c) any person or group [as defined for purposes of Section 13(d) of the Exchange Act] acquires assets of the Company having a gross fair market value equal to or more than 40 percent of the gross fair market value of the Company. Provided, however, the other provisions of this Section 3.07 notwithstanding, the term "Change of Control" shall not mean any merger, consolidation, reorganization, or other transaction in which the Company exchanges or offers to exchange newly-issued or treasury Common Shares representing 20 percent or more, but less than 50 percent, of the outstanding equity securities of the Company entitled to vote for the election of directors, for 51 percent or more of the outstanding equity securities entitled to vote for the election of at least the majority of the directors of a corporation other than the Company or an Affiliate (the "Acquired Corporation"), or for all or substantially all of the assets of the Acquired Corporation.

3.08. "Committee" means the Compensation Committee of the Board, which shall consist of not less than three (3) members of the Board each of whom is a "non-employee director" as defined in

Securities and Exchange Commission Rule 16b-3(b)(3)(i), or as such term may be defined in any successor regulation under Section 16 of the Securities Exchange Act of 1934, as amended. In addition, each member of the Committee shall be an outside director within the meaning of IRC section 162(m).

3.09. "Common Shares" means the common shares of the Company, its successors and assigns.

3.10. "Company" means Big Lots Inc., an Ohio Corporation, its successors and assigns and any corporation which shall acquire substantially all its assets.

3.11. "Conditional Payment" means prepaying a Bonus before the date of current payment in Section 6.02 and subjects the prepayment (or a portion thereof) to possible return to the Company.

3.12. "Covered Associate" means any Participant who is expected to be a "covered employee" (in the Fiscal Year the Bonus is expected to be payable) as defined in IRC section 162(m) and the regulations thereunder.

3.13. "Deferred Bonus Account" means the bookkeeping account established under Section 6.04.

3.14. "Determination Date" means as to a Performance Period: (a) the first day of the Performance Period; or (b) such other date set by the Committee provided such date will not jeopardize the Plan's Bonus as performance-based compensation under IRC section 162(m).

3.15. "Eligible Position" means an employment position with the Company or an Affiliate which provides the employee in the position the opportunity to participate in the Plan. The Committee (or its designee) determines Eligible Positions.

3.16. "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

3.17. "Fiscal Year" means the fiscal year of the Company (currently comprised of a 52/53 week fiscal year which ends on the Saturday nearest to January 31).

3.18. "IRC" means the Internal Revenue Code of 1986, as amended from time to time, and any successor along with relevant rules, regulations, and authoritative interpretations the Internal Revenue Service issues.

3.19. "Participant" means a key employee of the Company or an Affiliate who has been approved for participation in the Plan by the Committee (or its designee).

3.20. "Performance Period" means the period (which, with respect to a Covered Associate, may be no shorter than a fiscal quarter of the Company) established by the Committee over which the Committee measures whether or not Bonuses have been earned. In most cases, the Performance Period will be a Fiscal Year. In the case of an inaugural Performance Period or a promotion, the Performance Period may be less than a Fiscal Year.

3.21. "Tax" means any net income, alternative or add-on minimum tax, gross income, gross receipts, commercial activity, sales, use, consumer, transfer, documentary, registration, ad valorem, value added, franchise, profits, license, withholding, payroll, employment, unemployment insurance contribution, excise, severance, stamp, occupation, premium, property, environmental or windfall profit tax, custom, duty, unclaimed fund/abandoned property, or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or any penalty, addition to tax or additional amount imposed by any governmental authority responsible for the imposition of any such tax.

4. ELIGIBILITY AND PARTICIPATION

4.01. Approval. Each key employee of the Company or an Affiliate who is approved for participation in the Plan by the Committee (or under the authority conveyed by the Committee) shall be a Participant as of the date designated.

4.02. Termination of Approval. The Committee may withdraw its approval for participation for a Participant at any time. In the event of such withdrawal, the key employee concerned shall cease to be an active Participant as of the date selected by the Committee. Nothing in this Section 4.02 shall permit distribution of amounts credited to a Participant's Deferred Bonus Account before the time specified in Section 6.04.

4.03. Transfers In, Out of and Between Eligible Positions.

(a) A key employee may be approved for participation during a portion of a Fiscal Year.

(i) With respect to employees who are not Covered Associates, an employee newly hired or transferred into an Eligible Position shall have his/her participation prorated during the first Fiscal Year provided employment or transfer occurs at least two months prior to the end of the Fiscal Year.

(ii) An employee (other than a Covered Associate) transferred out of an Eligible Position may receive a prorated Bonus at the discretion of the Committee provided he/she served in the Eligible Position for at least two full months during the Fiscal Year.

(iii) With respect to Covered Associates approved for participation during a portion of a Fiscal Year, see Section 5.03 as it would relate to Performance Periods that are not equivalent to a Fiscal Year.

(b) Participants (who are not Covered Associates) transferring between Eligible Positions having different Bonus formulas will receive Bonuses prorated to months served in each Eligible Position. Generally, for Covered Associates transferring between Eligible Positions, Section 5.03 shall apply to each respective Performance Period applicable to the particular position unless an employment agreement provides otherwise.

4.04. Termination of Employment.

(a) The Participant shall forfeit all rights to a bonus unless the Participant is employed by the Company or an Affiliate on the day on which payments determined under Section 6.02 are in fact made (or would have been made if a deferred payment election under Section 6.04 had not been executed). However, a Participant shall not forfeit a bonus for a performance period if the Participant is employed by the Company or an Affiliate at the end of the Performance Period and is involuntarily terminated by the Company or an Affiliate without cause or terminates by reason of retirement, disability, or death, after the end of the performance period, but before the bonus payment date.

(b) The Company shall have discretion to provide a pro-rated Bonus to a Participant whose employment with the Company or an Affiliate terminated by reason of retirement, disability, or death during a Performance Period.

5. DETERMINATION OF BONUSES

5.01. In addition to the vesting requirements of Section 4.04, Bonuses will vest solely on account of: (1) the attainment of one or more pre-established performance objectives and (2) in the case of Covered Associates, the certification described in Section 5.07.

5.02. With respect to Bonuses for Covered Associates, the material terms of the performance measure(s) must be disclosed to, and subsequently approved by, the shareholders before the Bonus payout is executed, unless the performance measures conform individually, alternatively or in any combination of the performance criteria and the application thereof in Appendix A.

5.03. Prior to the completion of 25% of any Performance Period (which, by example, may be a full Fiscal Year or some potion thereof) or such earlier date as required under IRC section 162(m), the Committee shall in its sole discretion, for each such Performance Period determine and establish in writing a performance measure or performance measures (in accordance with Section 5.02) applicable to the Performance Period to any Covered Associate. Within the same period of time, the Committee (or its designee) for each such Performance Period shall determine and establish in writing the performance measures applicable to the Performance Period for Participants who are not Covered Associates. Such pre-established performance measures must state, in terms of an objective formula or standard, the method for computing the amount of the Bonus payable to the Participant if the objective(s) is (are) obtained. A formula or standard is objective if a third party having knowledge of the relevant performance results could calculate the amount to be paid to the Participant. The Committee may establish any number of Performance Periods, objectives and Bonuses for any associate running concurrently, in whole or in part, provided, that in so doing the Committee does not jeopardize the Company's deduction for such Bonuses under IRC section 162(m).

5.04. On or prior to the date specified in Section 5.03, the Committee, in its sole discretion, shall either; (a) assign each Participant a target Bonus opportunity level expressed as a percentage of Base Salary or a whole dollar amount (for Covered Associates, Base Salary must be fixed prior to the establishment of performance objectives applicable to a particular Performance Period); or (b) establish a payout table or formula for purposes of determining the Bonus (if any) payable to each Participant. The Committee may authorize a designee to establish a payout table or formula for those Participants who are not Covered Associates.

5.05. Each payout table or formula:

(a) shall be in writing;

(b) shall be based on a comparison of actual performance to the performance objectives;

(c) may include a "floor" which is the level of achievement of the performance objective in which payout begins;

(d) shall include a ceiling (a/k/a "stretch") which is the level of achievement for the maximum Bonus payout percentage (subject to Section 5.09); and

(e) shall provide for a formula for the actual Bonus attainment in relation to the Participant's target Bonus, depending on the extent to which actual performance approached, reached or exceeded the performance criteria goal subject to Section 5.09.

5.06. In lieu of Bonuses based on a percentage of Base Salary (Section 5.04), Bonuses may be based on a percentage or share of a Bonus pool. The Committee (or its designee) shall determine (by the date specified in Section 5.03) the total dollar amount available for Bonuses (or a formula to calculate the total dollar amount available) known as a Bonus pool. The Committee, in its sole discretion, may establish two or more separate Bonus pools and assign the Participants to a particular Bonus pool. The Committee (or its designee in the case of Participants who are not Covered Associates) shall establish in writing a performance payout table or formula detailing the Bonus pool and the payout (or payout formula) based upon the relative level of attainment of performance goals. Each payout table or formula shall (a) be based on a comparison of actual performance to the performance goals, (b) provide the amount of a Participant's Bonus or total pool dollars available (or a formula to calculate pool dollars available), if the performance goals for the Performance Period are achieved, and (c) provide for an actual Bonus (which may be based on a formula to calculate the percentage of the pool to be bonused to a particular Participant) based on the extent to which the performance goals were achieved. The payout table or formula may include a "floor" which is the level of achievement of the performance goals in which payout begins. In the case of Bonuses which are stated in terms of a percentage of a Bonus pool, the sum of the individual percentages for all Participants in the pool cannot exceed 100 percent. In no case shall a reduction in a Bonus of one Participant result in an increase in another Participant's Bonus.

5.07. After the end of each Performance Period or such earlier date if the performance objective(s) are achieved, the Committee shall certify in writing, prior to the unconditional payment of any Bonus, which performance objective(s) for the Performance Period were satisfied and to what extent they were satisfied. The Committee (or its designee) shall determine the actual Bonus for each Participant based on the payout table/formula established in Section 5.05 or 5.06, as the case may be.

5.08. The Committee, in its discretion, may cancel or decrease a Bonus calculated under this Plan, but with respect to Covered Associates, may not under any circumstances increase such Bonus calculated under this Plan.

5.09. Any other provision of the Plan notwithstanding, the maximum aggregate Bonus payable to a Participant for a particular Fiscal Year may not exceed $3,000,000.

6. PAYMENT OF INCENTIVE BONUSES

6.01. <u>In General</u>

(a) Once a Bonus has vested and the amount thereof is determined, payment of the Bonus (or the portion thereof not deferred under Section 6.04) shall be made pursuant to Section 6.02 or, if properly and timely elected and permitted by IRC section 409A (i.e. intended to avoid earlier income inclusion, interest and additional taxes of IRC section 409A), shall be deferred in accordance with Section 6.04.

(b) To the extent that any Bonus under the Plan is subject to IRC section 409A (or its successor), the terms and administration of such Bonus shall comply with the provisions of IRC section 409A (or its successor) and good faith reasonable interpretations thereof, and to the extent necessary to achieve compliance, shall be modified, replaced, or terminated at the discretion of the Committee.

6.02. <u>Current Payment.</u> A Participant's Bonus for a Performance Period, which is not deferred in accordance with the provisions of Section 6.04 hereof, and a Participant's Bonus, whether or not he/she elected deferred-payment thereof, for the Fiscal Year in which his/her employment terminates, shall be paid in immediately available funds to the Participant, or his/her Beneficiary in the event of his/her death, on or before the fifteenth day of the third month following the end of the Performance Period.

6.03. <u>Conditional Payment.</u> The Committee may authorize a Conditional Payment of a Participant's Bonus based upon the Committee's good faith determination. The Conditional Payment, at the discretion of the Committee (or, except for Covered Associates, under authority granted to its designee) may be discounted to reasonably reflect the time value of money for the prepayment. Conditional Payments to Covered Associates shall only be made in circumstances where the Covered Associate's compensation deduction will not be jeopardized under IRC section 162(m). The amount of the Conditional Payment that will be returned to the Company is equal to the Conditional Payment less the Bonus payment that has vested, if any. For example, if the floor (see Section 5.05) was not attained for the performance goal or target for the Performance Period, all of the Conditional Payment made for that Performance Period to the Participant must be returned to the Company. Return of all or a portion of the Conditional Payment shall be made reasonably soon after it is determined the extent to which the performance goal or target was not achieved. Conditional payments shall not be made in connection with bonuses that otherwise would be subject to IRC section 409A if paid in the ordinary course.

6.04. <u>Deferred Payment.</u> Only Participants who are employed by the Company or an affiliate of the Company that is related to the Company through an 80 percent chain of ownership are permitted to defer a Bonus under this Section 6.04.

(a) Highly Compensated Employees. If a Participant in this Plan is a highly compensated employee who participates in the Big Lots, Inc. Supplemental Savings Plan (the "Top Hat Plan"), elections to defer Bonus, elections as to the form of distribution of the deferred amount, establishment of a deferred account, distributions from the deferred accounts, and all other terms governing the deferred payment of a Bonus shall be governed by the terms of the

Top Hat Plan. Any election to defer the Bonus of a Participant who participates in the Top Hat Plan will result in an account administered under the Top Hat Plan.

(b) Other Employees. The terms governing the deferral of a Bonus for Participants who do not participate in the Top Hat Plan are set forth below.

(i) Election. Before the first day of each Performance Period (or such other date as is permissible to properly defer the Bonus for income tax purposes), a Participant may irrevocably elect in writing to have a part or (if permissible under IRC section 409A) all of a Bonus for the year under the Plan (but not less than $5,000) deferred. At the same time, the Participant also shall elect the form of distribution from the Deferred Bonus Account, from the choices set forth in Section 6.04(b)(v). Such deferred payment shall be credited to a bookkeeping reserve account which shall be established for the Participant and set up on the books of the Company or an Affiliate and known as his/her "Deferred Bonus Account".

(ii) Credits to Deferred Bonus Account. When a Participant has elected to have a part or all of his/her Bonus credited to a Deferred Bonus Account, the unpaid balance in such account shall be credited with a simple annual interest equivalent, as follows: As of the May 1 next following the Fiscal Year for which the deferred Bonus was paid, such Bonus shall become part of the unpaid balance of such Deferred Bonus Account. Such Deferred Bonus Account shall be credited on April 30 of each year with an amount equal to interest on the unpaid balance of such account from time to time outstanding during the year ending on such April 30 at the rate determined by adding together the Three-month Treasury Bill rate on the last banking day prior to the beginning of such year and the Three-month Treasury Bill rate in effect on the last banking days of each of the calendar months of April through March of such year and dividing such total by 12. In the event that the Deferred Bonus Account shall be terminated for any reason prior to April 30 of any year, such account shall upon such termination date be credited with an amount equal to interest at the average Three-month Treasury Bill rate determined as aforesaid on the unpaid balance from time to time outstanding during that portion of such year prior to the date of termination.

(iii) Alternate Deferral Plans. The Committee, at its discretion, may provide alternate deferral arrangements of which Bonuses under this Plan may be included provided that such deferral arrangements conform with IRC section 409A (i.e. intended to avoid earlier income inclusion, interest and additional taxes of IRC section 409A).

(iv) Trust Deposits. The Committee, at its discretion, may establish an irrevocable trust in which the assets of the trust are subject to the general creditors of the Company and/or the Affiliate as the case may be. Such trust may upon the occurrence of certain events, as determined by the Committee, receive assets equal to the value of all Participants' Deferred Bonus Accounts on the date of the event.

(v) Distribution upon Termination of Employment. Upon termination of a Participant's employment for any reason with the Company or an affiliate that is related to the Company through an 80 percent chain of ownership, the Participant, or his/her Beneficiary in the event of his/her death, shall be entitled to payment of the entire Deferred Bonus Account in one lump-sum payment payable on the date of the first regular payroll after the thirtieth day following the date of termination of employment, or in ten annual installment payments payable as set forth below, as elected by the Participant at the time the Participant elects to defer all or part of his or her Bonus. The amount accumulated in such Participant's Deferred Bonus Account shall be paid in immediately available funds. Distribution of installments over ten years shall be made as follows:

(1) The first annual payment shall be made on the date of the first regular payroll after the thirtieth day following the date of termination of employment, and shall

be in an amount equal to the value of 1⁄10th of the total amount credited to the Participant's Deferred Bonus Account as of the end of the month immediately preceding the date of termination.

(2) A second annual payment shall be made on the date of the first regular payroll after the start of the Fiscal Year following the year during which the first anniversary of the date of termination of employment occurs, and shall be in an amount equal to the value of 1⁄9th of the amount credited (which includes accumulated interest) to the Participant's Deferred Bonus Account as of January 1 next following the first anniversary of the termination of employment.

(3) Each succeeding installment payment shall be made on the date of the first regular payroll of the succeeding Fiscal Year and shall be determined in a similar manner, i.e., the fraction of Participant's Deferred Bonus Account balance to be paid out shall increase each year to 1⁄8th, 1⁄7th, etc., until the tenth installment which shall equal the then remaining balance of the Deferred Bonus Account.

Notwithstanding any other provision of this Plan, in the case of a Participant who is determined to be a specified employee for purposes of Code section 409A (a)(2)(B), no payment required to be made under this Plan as a result of termination of employment other than by death or Disability, shall be made earlier than the date that is six months after termination. Instead, payments in such a case shall be made or commence to be made on the first day of the first month that commences following the end of the six-month period following such termination of service. Specified employees for purposes of this Section 6.04(b)(v) will be identified annually as of a date specified in writing by the Committee. If no date is specified, the identification date is deemed to be December 31.

(vi) Distribution in Event of Financial Emergency. If requested by a Participant while in the employ of the Company or an Affiliate and if the Committee (or in the case of Participants who are not Covered Associates, its designee) determines that an unforeseeable financial emergency has occurred in the financial affairs of the Participant, all or a portion of the Deferred Bonus Account of the Participant on the date the Participant makes the request may be paid out at the sole discretion of the Committee (or its designee) in an amount no greater than the amount reasonably necessary to satisfy the emergency need (including amounts necessary to pay any Federal, state or local income taxes reasonably anticipated to result from such distribution). In order to qualify under this Section, the financial hardship must be the result of an unforeseeable financial emergency. For this purpose, an "unforeseeable financial emergency" is an extraordinary and unanticipated emergency that is caused by an event beyond the control of the Participant (such as an illness, accident or casualty) and that would result in severe financial hardship to the Participant if the early distribution were not permitted. The Participant must supply written evidence of the financial hardship and must declare, under penalty of perjury, that the Participant has no other resources available to meet the emergency, including the resources of the Participant's spouse and minor children that are reasonably available to the Participant. The Participant must also declare that the need cannot be met by reimbursement or compensation by insurance or otherwise, or by reasonable liquidation of the Participant's assets (or the assets of the spouse or minor children of the Participant) to the extent such liquidation will not itself cause severe financial hardship. Any such distribution shall be paid within 7 days of the determination by the Committee that such a financial emergency exists.

(vii) Acceleration of Payment. Notwithstanding the provisions in Sections 6.04(b)(v) and (vi), once distributions of the Deferred Bonus Account begin, if the amount remaining in a Participant's Deferred Bonus Account at any time is less than $5,000, the

Committee shall pay the balance in the Participant's Deferred Bonus Account in a lump sum.

(viii) Beneficiary Designation.

(1) A Participant may designate a Beneficiary who is to receive, upon his/her death or disability, the distributions that otherwise would have been paid to him/her. All designations shall be in writing and shall be effective only if and when delivered to the Secretary of the Company during the lifetime of the Participant. If a Participant designates a Beneficiary without providing in the designation that the Beneficiary must be living at the time of each distribution, the designation shall vest in the Beneficiary all of the distribution whether payable before or after the Beneficiary's death, and any distributions remaining upon the Beneficiary's death shall be made to the Beneficiary's estate.

(2) A Participant may from time to time during his lifetime change his Beneficiary by a written instrument delivered to the Secretary of the Company. In the event a Participant shall not designate a Beneficiary as aforesaid, or if for any reasons such designation shall be ineffective, in whole or in part, the distribution that otherwise would have been paid to such Participant shall be paid to his estate and in such event the term "Beneficiary" shall include his estate.

(ix) Corporate Changes.

(1) Dissolution or Liquidation of Company. The Company shall cause the dollar balance of a Deferred Bonus Account (adjusted to the end of the month immediately preceding the date of dissolution or liquidation) to be paid out in cash in a lump sum to the Participants, or their Beneficiaries as the case may be, 60 days following the date of a corporate dissolution of the Company taxed under IRC section 331.

(2) Change of Control of Company. In the event of a Change of Control of the Company, the Company may, within thirty days preceding or twelve months following the Change of Control event, elect to terminate the Plan and to distribute all Deferred Bonus Accounts under the Plan or take any other actions that the Committee deems advisable in order to protect the interests of the Participants (and Beneficiaries). In the event of a termination of the Plan on Change of Control, all Deferred Bonus Accounts under the Plan, and all accounts under any substantially similar arrangements, shall be paid within twelve months of termination of the Plan.

7. RIGHTS OF PARTICIPANTS

7.01. No Participant or Beneficiary shall have any interest in any fund or in any specific asset or assets of the Company or an Affiliate by reason of any account under the Plan. It is intended that the Company has merely a contractual obligation to make payments when due hereunder and it is not intended that the Company hold any funds in reserve or trust to secure payments hereunder. No Participant may assign, pledge, or encumber his/her interest under the Plan, or any part thereof, except that a Participant may designate a Beneficiary as provided herein.

7.02. Nothing contained in this Plan shall be construed to give any associate or Participant any right to receive any Bonus other than in the sole discretion of the Committee or any rights whatsoever with respect to the Common Shares of the Company.

8. NO EMPLOYEE RIGHTS

8.01. Nothing in the Plan or participation in the Plan shall confer upon any Participant the right to be employed by the Company or an Affiliate or to continue in the employ of the Company or an Affiliate, nor shall anything in the Plan, or participation in the Plan amend, alter or otherwise affect any rights or terms of employment or other benefits arising from that employment.

9. ADMINISTRATION

9.01. Administration. The Committee shall have complete authority to administer the Plan, interpret the terms of the Plan, determine eligibility of associates to participate in the Plan, and make all other determinations and take all other actions in accordance with the terms of the Plan and any trust agreement established under Section 6.04(b)(iv). Any determination or decision by the Committee shall be conclusive and binding on all persons who at any time have or claim to have any interest whatever under this Plan.

9.02. Liability of Committee, Indemnification. To the extent permitted by law, the Committee shall not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to his or her own bad faith or willful misconduct.

9.03. Expenses. The costs of the establishment, the adoption, and the administration of the Plan, including but not limited to legal and accounting fees, shall be borne by the Company. The expenses of establishing and administering any trust under Section 6.04(b)(iv) shall be borne by the trust; provided, however, that the Company shall bear, and shall not be reimbursed by, the trust for any tax liability of the Company associated with the investment of assets by the trust.

9.04. Choice of Law. The validity and effect of this Plan and the rights and obligations of all persons affected hereby shall be construed and determined in accordance with the laws of the State of Ohio, unless superseded by federal law, which shall govern correspondingly.

10. AMENDMENT OR TERMINATION

10.01. The Committee may modify or amend, in whole or in part, any or all of the provisions of the Plan, except as to those terms or provisions that are required by IRC section 162(m) to be approved by the shareholders, or suspend or terminate the Plan entirely; provided, however, that no such modifications, amendment, suspension or termination may, without the consent of the Participant, or his Beneficiary in the case of his/her death, reduce the right of a Participant, or his/her Beneficiary, as the case may be, to any Payment due under the Plan. For the avoidance of doubt, the Committee may amend the Plan as necessary to conform the Plan to the requirements of IRC section 409A. Distributions of Deferred Bonus Accounts on termination of the Plan shall occur only under the circumstances specified in Section 6.04(b)(ix) above.

11. TAX WITHHOLDING

11.01. The Company or the employing Affiliate shall have the right to deduct from all cash payments any federal, state, or local taxes or other withholding amounts required by law or valid court order to be withheld with respect to such cash payments. Amounts deferred will be taken into account for purposes of any tax or withholding obligation under the Federal Insurance Contribution Act and Federal Unemployment Tax Act, not in the year distributed, but at the later of the year the services are performed or the year in which the rights to the amounts are no longer subject to a substantial risk of forfeiture, as required by IRC sections 3121(v) and 3306(r) and the regulations thereunder. Amounts required to be withheld pursuant to IRC sections 3121(v) and 3306(r) shall be withheld out of other current wages paid to the Participant by the Company or the employing Affiliate, or, if such current wages are insufficient, out of the amount of Bonus elected to be deferred. The determination of the Company or the employing Affiliate regarding applicable income and employment tax withholding requirements shall be final and binding on the Participant.

12. SECTION 409A

12.01. It is intended that the Plan comply with IRC section 409A and the Plan shall be construed, where possible, to comply with section 409A. Neither the Company, the employing Affiliate, nor the Committee shall be obligated to perform any obligation hereunder in any case where, in the opinion of the Company's Counsel, such performance would result in the violation of IRC section

409A. Should it be determined that any provision or feature of the Plan is not in compliance with IRC section 409A, that provision or feature shall be null and void to the extent required to avoid the noncompliance with IRC section 409A. To the extent taxation of a Participant is required under IRC section 409A, the Participant's Deferred Bonus Account shall be distributed to the Participant (or Beneficiary) in an amount equal to the amount required to be included in income under section 409A.

APPENDIX A

PERFORMANCE CRITERIA

Performance criteria imposed on Bonus opportunities will be derived using the accounting principles generally accepted in the United States of America and will be reported or appear in the Company's periodic filings with the Securities Exchange Commission (including Forms 10-Q and 10-K) or the Company's annual report to shareholders and will be derived from one or more (or any combination of one or more) of the following:

(a) Income (loss) per common share from continuing operations;

(b) Income (loss) per common share;

(c) Operating profit (loss), operating income (loss), or income (loss) from operations (as the case may be);

(d) Income (loss) from continuing operations before unusual or infrequent items;

(e) Income (loss) from continuing operations;

(f) Income (loss) from continuing operations before income taxes;

(g) Income (loss) from continuing operations before extraordinary item and/or cumulative effect of a change in accounting principle (as the case may be);

(h) Income (loss) before extraordinary item and/or cumulative effect of a change in accounting principle (as the case may be);

(i) Net income (loss);

(j) Income (loss) before other comprehensive income (loss);

(k) Comprehensive income (loss);

(l) Income (loss) before interest and income taxes (sometimes referred to as "EBIT");

(m) Income (loss) before interest, income taxes, depreciation and amortization (sometimes referred to as "EBITDA");

(n) Any other objective and specific income (loss) category or non-GAAP financial measure that appears as a line item in the Company's periodic filings with the Securities and Exchange Commission or the annual report to shareholders;

(o) Any of items (c) through (n) on a weighted average common shares outstanding basis;

(p) Any of items (a) through (n) on a diluted basis as defined in the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 128 including authoritative interpretations or amendments thereof which may be issued from time to time as long as such interpretations or amendments are utilized on the consolidated statements of operations or statement of operations, as applicable, or in the notes to the consolidated financial statements;

(q) Common share price;

(r) Total shareholder return expressed on a dollar or percentage basis as is customarily disclosed in the proxy statement accompanying the notice of annual meetings of shareholders;

(s) Percentage increase in comparable store sales;

(t) Gross profit (loss) or gross margin (loss) (as the case may be);

(u) Economic value added;

(v) Any of items (a) through (u) with respect to any subsidiary, Affiliate, business unit, business group, business venture or legal entity, including any combination thereof, or controlled directly or indirectly by the Company whether or not such information is included in the Company's annual report to shareholders, proxy statement or notice of annual meeting of shareholders;

(w) Any of items (a) through (u) above may be determined before or after a minority interest's share as designated by the Committee;

(x) Any of items (a) through (u) above with respect to the period of service to which the performance goal relates whether or not such information is included in the Company's periodic filings, annual report to shareholders, proxy statement or notice of annual meetings of shareholders;

(y) Total shareholder return ranking position meaning the relative placement of the Company's total shareholder return [as determined in (r) above] compared to those publicly held companies in the Company's peer group as established by the Committee prior to the beginning of a vesting period or such later date as permitted under the Code. The peer group shall be comprised of not less than eight and not more than sixteen companies, including the Company; or

(z) With respect to items (a), (b), (o) and (p) above, other terminology may be used for "income (loss) per common share" (such as "Basic EPS," "earnings per common share," "diluted EPS," or "earnings per common share-assuming dilution") as contemplated by SFAS No. 128, as amended, revised or superseded.

The Committee in its sole discretion, in setting the performance objectives in the time prescribed in Section 5, may provide for the making of equitable adjustments (including the income tax effects attributable thereto), singularly or in combination, to the performance criteria in A above of this Appendix in recognition of unusual or non-recurring events, transactions and accruals for the effect of the following qualifying objective items:

(aa) Asset impairments as described in SFAS No. 144, as amended, revised or superseded;

(bb) Costs associated with exit or disposal activities as described by SFAS No. 146, as amended, revised or superseded;

(cc) Amortization costs associated with the acquisition of goodwill or other intangible assets, as described by SFAS No. 142, as amended, revised or superseded;

(dd) Merger integration costs;

(ee) Merger transaction costs;

(ff) Any profit or loss attributable to the business operations of a reportable segment as described by SFAS No. 131 as amended, revised or superseded;

(gg) Any profit or loss attributable to a reportable segment as described by SFAS No. 131, as amended, revised or superseded or an entity or entities acquired during the period of service to which the performance goal relates;

(hh) Any specified Tax settlement(s) (or combination thereof) with a Tax authority;

(ii) The relevant Tax effect of new Tax legislation enacted after the beginning of the Performance Period or other changes in Tax law;

(jj) Any extraordinary item, event or transaction as described in Accounting Principles Board Opinion ("APB") No. 30, as amended, revised or superseded;

(kk) Any unusual in nature, or infrequent in occurrence items, events or transactions (that are not "extraordinary" items) as described in APB No. 30, as amended, revised or superseded;

(ll) Any other non-recurring items or other non-GAAP financial measures (not otherwise listed);

(mm) Any change in accounting as described in APB No. 20, as amended, revised or superseded;

(nn) Unrealized gains or losses on investments in debt and equity securities as described in SFAS No. 115, as amended, revised or superseded;

(oo) Any gain or loss recognized as a result of derivative instrument transactions or other hedging activities as described in SFAS No. 133, as amended, revised or superseded;

(pp) Shares-based compensation charges as described in SFAS No. 123, as amended, revised or superseded;

(qq) Any gain or loss as reported as a component of other comprehensive income as described in SFAS No. 130, as amended, revised or superseded;

(rr) Any gain or loss as a result of a direct or indirect guarantee, as described in FASB Interpretations ("FIN") No. 45, as amended, revised or superseded;

(ss) Any gain or loss as the result of the consolidation of a variable interest entity as described in FIN No. 46, as amended, revised or superseded;

(tt) Any gain or loss as a result of litigation, judgments or lawsuit settlement (including class action lawsuits); or

(uu) Any charges associated with the early retirement of debt obligations.

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BIG LOTS, INC.
AMENDED AND RESTATED AUDIT COMMITTEE CHARTER

The Audit Committee (the ”Committee“) is appointed by the Board of Directors (the ”Board“) of Big Lots, Inc. (the ”Company“) to assist the Board in fulfilling its oversight responsibility relating to (1) the integrity of the Company's financial statements and financial reporting process and the Company's systems of internal accounting and financial controls, (2) the compliance by the Company with legal and regulatory requirements, including the Company's disclosure controls and procedures, (3) the annual independent audit of the Company's financial statements, the engagement of the independent auditor and the evaluation of the independent auditor's qualifications, independence and performance, (4) the performance of the Company's internal audit services function, (5) the evaluation of enterprise risk issues, and (6) the fulfillment of the other responsibilities set out herein.

Composition

The Committee shall be comprised of three members and shall meet the independence and experience requirements of the New York Stock Exchange and the Securities Exchange Commission, as such requirements are interpreted by the Board in its business judgment. The members of the Committee shall be appointed annually by the Board on the recommendation of the Nominating/Corporate Governance Committee. The Board shall designate one member of the Committee as its chairperson. Committee members may be replaced by the Board. Each member will be ”financially literate“ (or will become so within a reasonable time after his or her appointment to the Committee), and the chairperson of the Committee shall have ”accounting or related financial management expertise,“ as such qualifications are interpreted by the Board in its business judgment.

No director may serve as a member of the Committee if such director serves on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee. No member of the Committee may receive any compensation from the Company other than directors' fees.

Authority

The Committee shall have the sole authority to appoint or replace the Company's independent auditor (subject, if applicable, to shareholder ratification), and shall approve all audit engagement fees (and other fees paid in connection with any non-audit services) and terms of all significant non-audit engagements with the Company's independent auditor. The Committee shall consult with management but shall not delegate these responsibilities.

The Committee shall approve guidelines for the retention of the Company's independent auditor for any non-audit service and the fee for such service and shall determine procedures for the approval of audit and non-audit services in advance. The Committee shall, in accordance with such procedures, approve in advance any audit or non-audit service provided to the Company by the Company's independent auditor, all as required by applicable law or listing standards.

The Committee may request any officer or employee of the Company, the Company's outside counsel, independent auditor, or internal auditor (or internal audit service provider) to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall meet with management, the independent auditor and the internal audit service provider in separate executive sessions at least quarterly.

The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing audit reports or performing other audit, review or attest services for the Company and to any advisors employed by the Committee, as well as funding for the payment of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee is empowered to retain persons having special competence (including special legal counsel, accounting or other consultants) as necessary to assist the Committee in fulfilling its responsibility, and may meet with the Company's investment bankers or financial analysts who follow the Company. The Committee shall have full authority to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company.

The Committee shall instruct the Company's independent auditor that the independent auditor is ultimately accountable to the Board and the Committee, as representatives of the Company's shareholders.

Meetings/Attendance

The Committee is to meet at least quarterly, and as many times as the Committee deems necessary. Meetings may be by telephone. Members of the Committee are to participate in all meetings. An agenda, together with materials relating to the subject matter of each meeting, shall be sent to members of the Committee prior to each meeting.

Communication/Reporting

The Committee members are expected to maintain free and open communication with the Company's independent auditor, members of management and the internal audit service provider. This communication shall include private sessions with each of these parties. Furthermore, the Committee shall provide sufficient opportunity for the Company's independent auditor to meet with others in the Company as appropriate without members of management present.

Minutes of each meeting are to be prepared and sent to Committee members and the Company's Directors who are not members of the Committee. Copies are to be provided to the Company's independent auditor as well as the Company's Chief Financial Officer.

The Committee shall make regular reports to the Board. The Committee shall review with the full Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors, or the performance of the internal audit function.

Responsibilities

The Committee is to serve as a focal point for communication between the Company's Directors who are not members of the Committee, the Company's independent auditor, and members of management, as their duties relate to financial accounting, reporting and controls. The Committee is to assist the Board in fulfilling its fiduciary responsibilities as to accounting policies and reporting practices of the Company, its subsidiaries and affiliates, and the sufficiency of auditing relative thereto. It is to be the Board's principal agent in ensuring the independence of the Company's independent auditor, the integrity of management and the adequacy of disclosures to shareholders. The opportunity for the independent auditor to meet with the entire Board as needed is not to be restricted, however.

The Committee shall rely on the expertise and knowledge of the Company's members of management and the Company's independent auditor in carrying out its oversight responsibilities. Management of the Company is responsible for determining the Company's financial statements are complete, accurate, and in accordance with generally accepted accounting principles ("GAAP"). The Company's independent auditor is responsible for auditing the Company's financial statements. It is not the duty of the Committee to plan or conduct audits, to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with GAAP or to assure compliance with applicable rules and regulations.

The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Specific Duties

At least quarterly, the Committee is to:

(1) Meet to review and discuss with members of management and the Company's independent auditor the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the Company's independent auditor's review of the quarterly financial statements and the disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(2) Discuss with members of management and the Company's independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's quarterly financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls (including any special audit steps adopted in light of material control deficiencies), the development, selection and disclosure of critical accounting estimates, and analysis of the affect of alternative assumptions, estimates or GAAP methods on the Company's financial statements.

(3) Discuss with members of management the Company's earnings press releases, including the use of "proforma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies.

(4) Receive periodic reports from the Company's independent auditor regarding their independence, discuss such reports with them, consider whether the provision of non-audit services is compatible with maintaining the independent auditor's independence and, if so determined by the Committee, recommend that the Board take appropriate action to satisfy itself of the independence of the Company's independent auditor.

(5) Review with members of management and the Company's independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.

(6) Meet with the Chief Financial Officer, the Company's independent auditor and the Company's internal auditor (or internal audit service provider) in separate sessions, without management present.

(7) Review with the Company's General Counsel legal or other matters that may have a material impact on the financial statements, the Company's compliance policies (including compliance with the Company's Code of Business Conduct & Ethics) and any material reports or inquiries received from regulators or governmental agencies.

(8) Discuss with members of management all certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

(9) Review with the Chief Executive Officer, the Chief Financial Officer and the General Counsel the Company's disclosure controls and procedures and review management's conclusions about the effectiveness of such disclosure controls and procedures, including any significant deficiencies in, or material non-compliance with, such controls and procedures.

(10) Review with members of management and the Company's independent auditor the effect of new or proposed regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements and other public disclosures.

At least annually, the Committee is to:

(1) Meet with the Company's independent auditor and internal auditor (or internal audit service provider) prior to their respective audits to review the overall scope and plans for the respective audits, the adequacy of staffing (including experience and qualifications of senior members) and other factors that may affect the effectiveness and timeliness of such audits. The Committee shall discuss with members of management, the internal auditor (or internal audit service provider) and the Company's independent auditor the Company's major risk exposures (whether financial, operating or otherwise), including the steps management has taken to

monitor and control such exposures, management of the Company's legal compliance programs and other considerations that may be relevant to their respective audits. The Committee shall review with members of management and the Company's independent auditor management's annual internal control report, including any attestation of the same by the Company's independent auditor and the adequacy and effectiveness of the Company's accounting and financial controls. Members of management and the internal auditor (or internal audit service provider) shall report periodically to the Committee regarding any significant deficiencies in the design or operation of the Company's internal controls, material weaknesses in internal controls and any fraud (regardless of materiality) involving persons having a significant role in the internals controls, as well as any significant changes in internal controls implemented by management during the most recent reporting period of the Company.

(2) Discuss with the Company's independent auditor and members of management the internal audit responsibilities, budget and staffing (whether internal or outsourced) and any recommended changes in the planned scope of the internal audit. If the internal audit services are outsourced, the Committee shall be responsible for the engagement, evaluation and termination of the internal audit service provider and shall approve fees paid to the internal audit service provider. As part of its responsibility to evaluate any internal audit service provider, the Committee shall review the quality control procedures applicable to the service provider. The Committee shall also obtain a report of the service provider addressing such service provider's internal control procedures, issues raised by their most recent internal quality control review or by any inquiry or investigation by governmental or professional authorities for the preceding five years and the response of such service provider.

(3) Meet to review and discuss the annual audited financial statements, with members of management and the Company's independent auditor, including disclosures made under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K. When conducting its review, the Committee shall discuss with members of management and the Company's independent auditor their judgments about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, the clarity of the disclosures in the financial statements and the adequacy of internal controls.

(4) Discuss with members of management and the Company's independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's annual financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls, the development, selection and disclosure of critical accounting estimates, analysis of the affect of alternative assumptions, estimates or GAAP methods on the Company's financial statements, and a description of any transactions as to which management obtained Statement on Auditing Standards No. 50 (Reports on the Application of Accounting Principles) letters.

(5) Discuss with the Company's independent auditor and internal audit service provider, if any, any consultations they held with their respective national offices regarding accounting or auditing issues.

(6) Obtain from the Company's independent auditor assurance that Section 10A of the Securities Exchange Act of 1934, regarding illegal acts, has not been implicated.

(7) Discuss with the Company's independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) relating to the conduct of the audit. In particular, and without limitation, discuss:

(a) The adoption of, or changes to, the Company's significant auditing and accounting principles and practices as suggested by the Company's independent auditor for management.

(b) The management letter provided by the Company's independent auditor and the Company's response to that letter.

(c) Any difficulties encountered in the course of the audit work and management's response, including any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

(8) Obtain and review a report from the Company's independent auditor regarding (a) the auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between he Company's independent auditor and the Company. Evaluate the qualifications, performance and independence of the Company's independent auditor, including whether the Company's independent auditor's internal quality-controls are adequate and its provision of non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and the Company's internal auditor (or internal audit service provider). Review and evaluate the performance of the lead partner of the Company's independent auditor assigned to the Company. The Committee shall present its conclusions to the Board and, if so determined by the Committee, recommend that the Board take additional action to satisfy itself of the qualifications, performance and independence of the auditor.

(9) Obtain and review any other material written communications (or summaries thereof) between the Company's independent auditor and management and all relevant reports (or summaries thereof) rendered by the Company's independent auditor.

(10) Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the lead audit partner or even the Company's independent auditing firm itself on a regular basis.

(11) Obtain and review a summary of the Company's transactions with Directors and officers of the Company and with firms that employ Directors, as well as any other material related party transactions.

(12) Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

(13) Review the Company's independent auditor's attestation and report on management's internal control report required under Section 404(b) of the Sarbanes-Oxley Act of 2002.

As required, the Committee is to:

(1) Review with members of management and the Company's independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures, if any, on the Company's financial statements.

(2) Meet periodically with members of management to review major financial risk exposures of the Company identified by management, if any, and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

(3) Set policies and guidelines for the Company's hiring of employees or former employees of the Company's independent auditor who were engaged on the Company's account.

(4) The Committee shall also carry out such other duties that may be delegated to it by the Board from time to time.

Performance Evaluation

The Committee shall produce and provide to the Board an annual performance self evaluation of the Committee, which evaluation shall compare the performance of the Committee with the requirements of this charter and set forth the goals and objectives of the Committee for the upcoming year. The performance evaluation shall also recommend to the Board, for its approval, any improvements to the Committee's charter deemed necessary or desirable by the Committee. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the chairperson of the Committee or any other member of the Committee designated by the Committee to make this report.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 28, 2006

Commission file number 1-8897

BIG LOTS, INC.
(Exact name of registrant as specified in its charter)

Ohio	**06-1119097**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
300 Phillipi Road, P.O. Box 28512, Columbus, Ohio	**43228-5311**
(Address of principal executive offices)	(Zip Code)

(614) 278-6800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares $0.01 par value	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Act).
Yes ☐ No ☒

The aggregate market value of the Common Shares held by non-affiliates of the Registrant (assuming for these purposes that all executive officers and directors are "affiliates" of the Registrant) was $1,465,561,324 on July 30, 2005, the last business day of the Registrant's most recently completed second fiscal quarter (based on the closing price of the Registrant's Common Shares on such date as reported on the New York Stock Exchange).

The number of Registrant's Common Shares outstanding as of April 10, 2006 was 112,924,651.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for its 2006 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

BIG LOTS, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED JANUARY 28, 2006

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

The Company

Big Lots, Inc., an Ohio corporation, by and through its wholly owned subsidiaries (collectively referred to as the "Company"), is the nation's largest broadline closeout retailer. In addition to closeout merchandise, the Company stocks products that its customers would expect to be able to obtain on a consistent basis at its stores. These products may not always be the same brand or may be off-brand because the Company attempts to provide its customers with the best value available. At January 28, 2006, the Company operated a total of 1,401 stores in 47 states. The Company's goal is to build upon its leadership position in broadline closeout retailing by providing its customers with great savings on brand-name closeouts and other value-priced merchandise. The Company's web site is located at www.biglots.com. The contents of the Company's web site are not part of this report.

The Company manages its business on the basis of one segment: broadline closeout retailing. Please refer to the consolidated financial statements and related notes in this Annual Report on Form 10-K for financial information regarding the Company. The Company internally evaluates and externally communicates overall sales and merchandise performance based on the following key merchandising categories: Consumables, Home, Seasonal and toys, and Other. The Consumables category includes food, health and beauty, plastics, paper, and pet departments. The Home category includes furniture, domestics, and home décor departments. Seasonal and toys includes toys, lawn & garden, trim-a-tree, and various holiday-oriented departments. The Other category primarily includes electronics, apparel, home maintenance, small appliances, and tools. See Note 11 to the consolidated financial statements in this Annual Report on Form 10-K for the net sales results of these categories for fiscal years 2005, 2004, and 2003.

In May 2001, Big Lots, Inc. was incorporated in Ohio and was the surviving entity in a merger with Consolidated Stores Corporation, a Delaware corporation. By virtue of the merger, Big Lots, Inc. succeeded to all the business, properties, assets, and liabilities of Consolidated Stores Corporation.

The Company's principal executive offices are located at 300 Phillipi Road, Columbus, Ohio 43228, and its telephone number is (614) 278-6800. All of the Company's operations were located within the United States of America at January 28, 2006, and January 29, 2005.

Associates

At January 28, 2006, the Company had 43,985 active associates comprised of 17,124 full-time and 26,861 part-time associates. Temporary associates hired during the fall and winter holiday selling season increased the number of associates to a peak of 52,105 in fiscal year 2005. Approximately 60% of the associates employed throughout the year are employed on a part-time basis. The relationship with the associates is considered to be good and the Company is not a party to any labor agreements.

Closeout Retailing

The Company attempts to maximize the amount of closeout merchandise available in its stores to offer the largest value to its customers. In addition, the Company works closely with its suppliers to provide merchandise, preferably a top brand that is easily recognizable by its customer base. Closeout retailers purchase merchandise that generally results from production overruns, packaging changes, discontinued products, or returns. As a result, closeout retailers can generally purchase most merchandise at a lower cost and offer most merchandise at lower prices than those offered by traditional discount retailers.

Retail Operations

The following table compares the number of stores in operation at the beginning and end of each of the prior five fiscal years:

	Fiscal Year				
	2005	2004	2003	2002	2001
Stores open at the beginning of the fiscal year	1,502	1,430	1,380	1,335	1,290
Stores opened during the fiscal year	73	103	86	87	78
Stores closed during the fiscal year	(174)	(31)	(36)	(42)	(33)
Stores open at the end of the fiscal year	1,401	1,502	1,430	1,380	1,335

The following table details the store locations by state at January 28, 2006:

Alabama	29	Maine	3	Ohio	109
Arizona	34	Maryland	12	Oklahoma	19
Arkansas	10	Massachusetts	15	Oregon	13
California	193	Michigan	43	Pennsylvania	60
Colorado	21	Minnesota	7	Rhode Island	1
Connecticut	7	Mississippi	15	South Carolina	29
Delaware	2	Missouri	26	Tennessee	43
Florida	104	Montana	2	Texas	116
Georgia	57	Nebraska	3	Utah	10
Idaho	5	Nevada	13	Vermont	4
Illinois	37	New Hampshire	7	Virginia	36
Indiana	47	New Jersey	12	Washington	19
Iowa	4	New Mexico	13	West Virginia	19
Kansas	10	New York	45	Wisconsin	16
Kentucky	40	North Carolina	62	Wyoming	2
Louisiana	25	North Dakota	2	**Total stores**	**1,401**
				Number of states	**47**

Of the Company's 1,401 stores, 522 stores operate in four states: California, Ohio, Texas, and Florida.

Competition

The Company operates in the highly competitive retail industry and faces strong sales competition from other general merchandise, discount, food, arts and crafts, and dollar store retailers. Additionally, the Company competes with a number of companies for retail site locations, attracting and retaining quality employees, and acquiring its broad assortment of closeout merchandise from suppliers.

Purchasing

An integral part of the Company's business is the sourcing and purchasing of quality brand-name merchandise directly from manufacturers and other vendors typically at prices substantially below those paid by traditional retailers. The Company believes that it has built strong relationships with many brand-name manufacturers and has capitalized on its purchasing power in the closeout marketplace to source merchandise that provides exceptional value to its customers. The Company has the ability to source and purchase significant quantities of a manufacturer's closeout merchandise in specific product categories and to control distribution in accordance with vendor instructions, thus providing a high level of service and convenience to these manufacturers. The Company's sourcing channels also include bankruptcies, liquidations, and insurance claims. The Company supplements its traditional brand-name closeout purchases with various direct import and domestically-sourced merchandise items in departments such as furniture, home décor, and seasonal. The Company expects that the unpredictability of the retail and manufacturing environments coupled with its dominant purchasing power position will continue to enhance its ability to source quality closeout merchandise at competitive prices.

The Company has a buying team with extensive closeout purchasing experience, which the Company believes has enabled it to develop successful long-term relationships with many of the largest and most recognized manufacturers in the United States. The Company believes that, as a result of these relationships and its experience and reputation in the closeout industry, many manufacturers offer inventory opportunities to the Company prior to attempting to dispose of their merchandise through other channels.

The Company's merchandise is purchased from domestic and foreign suppliers that provide the Company with multiple sources for each product category. In fiscal year 2005, the Company's top ten vendors accounted for 12.7% of total purchases (at cost) with no single vendor accounting for more than 2.0% of the aggregate.

During fiscal year 2005, the Company purchased approximately 30.6% of its products directly from overseas suppliers, including 23.0% from manufacturers located in China. Additionally, a significant amount of its domestically-purchased merchandise is manufactured abroad. As a result, a significant portion of the Company's merchandise supply is subject to certain risks as described further in Item 1A in this Annual Report on Form 10-K.

Warehouse and Distribution

The majority of the merchandise sold by the Company is received and processed for retail sale, as necessary, and distributed to the retail locations from Company-operated warehouse and distribution facilities. The Company carries a substantial amount of merchandise inventory in its distribution centers so that it can distribute merchandise quickly and efficiently to its stores in order to maximize sales. The Company has located and manages its distribution facilities to enable quick turn of time-sensitive product while attempting to minimize transportation costs and the distance from distribution facilities to its stores. The Company monitors inventory levels and takes markdowns on aged or slow moving items in order to improve the inventory turnover rate.

The re-engineering of the Company's Columbus, Ohio closeout distribution center (the "Columbus DC") was completed in fiscal year 2005.

For a further discussion of the warehouse and distribution facilities, refer to the Warehouse and Distribution section under Item 2 in this Annual Report on Form 10-K.

Advertising and Promotion

The Company's advertising and promotion program in fiscal year 2005 was designed to continue to build awareness of the Big Lots® brand and to drive customer traffic by featuring the broad range of quality, brand-name merchandise available at closeout prices, which the Company believes provides customers a unique shopping experience, as well as value. The Company uses a variety of marketing approaches through television and print to promote its stores to the public. These approaches may vary by market and by season.

In the interest of expanding its customer base and increasing the Company's overall level of top-of-mind brand awareness, the Company began national television advertising in March 2003, featuring 25 weeks of coverage, with all stores in all markets benefiting from television advertising for the first time in the Company's history. Prior to fiscal year 2003, the Company focused on local or spot television advertising that reached approximately two-thirds of the total store base. In fiscal years 2004 and 2005, the Company continued national television advertising commercials covering all stores in all markets.

The marketing program also utilizes printed advertising circulars in all markets. In fiscal year 2005, the Company distributed approximately 40 million multi-page circulars per week covering 25 weeks. The method of distribution included a combination of newspaper insertions and mailings. These circulars were designed by the Company and were distributed regionally to take advantage of market differences caused by product availability, climate, and customer preferences. Each circular generally featured 35 to 50 products. In fiscal year 2006, the Company expects to distribute circulars covering 26 weeks. In addition, store promotions, including window signs, pre-recorded periodic loudspeaker announcements, and in-store signage emphasize special bargains and significant values offered to customers.

Over the past five fiscal years, total advertising expense as a percentage of total net sales has ranged from 2.3% to 2.6%. In fiscal year 2005, including costs related to national television advertising, advertising expense as a percentage of total net sales was 2.3%.

The Company utilizes trademarks, service marks, and other intangible assets in its retail operations. The Company considers its intellectual property to be valuable and where applicable, has registered or has applications pending to register its trademarks and service marks with the United States Patent and Trademark Office. The Company believes that having distinctive intellectual property is an important factor in identifying the Company and distinguishing it from others.

Seasonality

The Company has historically experienced, and expects to continue to experience, seasonal fluctuations, with a larger percentage of its net sales and operating profit realized in the fourth fiscal quarter. In addition, the Company's quarterly results can be affected by the timing of new store openings and store closings, the amount of sales contributed by new and existing stores, the timing of television and circular advertising, and the timing of certain holidays. The Company historically purchases a higher proportion of merchandise, and thus carries higher inventory levels, and incurs higher outbound shipping and payroll expenses in the third fiscal quarter in anticipation of the increased sales activity during the fourth fiscal quarter.

The seasonality of the Company's business influences the Company's demand for seasonal borrowings. The Company historically has drawn upon its credit facilities to fund seasonal working capital needs and has substantially repaid these borrowings during the fourth fiscal quarter. The Company expects that it will have borrowings at various times throughout fiscal year 2006 under its $500.0 million unsecured credit facility entered into in fiscal year 2004 (the "2004 Credit Agreement"). Given the seasonality of the Company's business, the amount of borrowings under the 2004 Credit Agreement may fluctuate materially depending on various factors, including the time of the year, the Company's need to acquire merchandise inventory, and the timing of the execution of the $150.0 million share repurchase program authorized by the Board of Directors in February 2006.

Available Information

The Company makes available, free of charge, through its web site (www.biglots.com) under the "Investor Relations — Financial Information — SEC Filings" caption, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act as soon as reasonably practicable after the Company files such material with, or furnishes it to, the Securities and Exchange Commission (the "SEC").

In this Annual Report on Form 10-K, the Company incorporates by reference certain information from parts of its Proxy Statement for its 2006 Annual Meeting of Shareholders (the "2006 Proxy Statement"). On or about April 25, 2006, the 2006 Proxy Statement will be set forth on the Company's web site (www.biglots.com) under the "Investor Relations — Financial Information — SEC Filings" caption.

Information relating to corporate governance of the Company, including: Corporate Governance Standards; charters of the Board's Audit, Compensation, and Nominating/Corporate Governance Committees; the Company's Code of Business Conduct and Ethics; the Company's Code of Ethics for Financial Professionals; the Chief Executive Officer and Chief Financial Officer certifications related to the Company's SEC filings; the means by which shareholders may communicate with the Company's Board; and transactions in the Company's securities by its directors and executive officers may be found on the Company's web site (www.biglots.com) under the "Investor Relations — Governance" caption. The Company's Code of Business Conduct and Ethics is applicable to all of the Company's associates, including the directors, the principal executive officer, the principal financial officer, and the principal accounting officer. The Company's Code of Ethics for Financial Professionals for its Chief Executive Officer and all other Senior Financial Officers (as that term is defined therein), contains provisions specifically applicable to the individuals serving in those positions. The Company intends to post amendments to and waivers, if any, from its Code of Business Conduct and Ethics (to the extent applicable to the Company's directors and executive officers) and its Code of Ethics for Financial Professionals at this location on its web site. The Company will provide any of the foregoing information without charge upon written request to the Company's Corporate Secretary. The contents of the Company's web site are not part of this report.

ITEM 1A. RISK FACTORS

The statements in this section describe the major risks to our business and should be considered carefully. In addition, these statements constitute our cautionary statements under the Private Securities Litigation Reform Act of 1995.

Our disclosure and analysis in this 2005 Annual Report on Form 10-K and in our 2005 Annual Report to Shareholders contain some forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, we also provide forward-looking statements in other materials we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "objective," "goal," "project," "intend," "plan," "believe," "will," "target," "forecast," and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance, or results of current and anticipated products, sales efforts, expenses, interest rates, the outcome of contingencies, such as legal proceedings, and financial results.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties, and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated, or projected. You should bear this in mind as you consider forward-looking statements.

You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date thereof. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K to the SEC.

Also note that we provide the following cautionary discussion of risks, uncertainties, and possibly inaccurate assumptions relevant to our businesses. There can be no assurances that we have correctly and completely identified, assessed, and accounted for all factors that do or may affect our business, financial condition, results of operations, and liquidity. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. Additional risks not presently known to us or that we believe to be immaterial also may adversely impact us. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on our business, financial condition, results of operations, and liquidity. Consequently, all of the forward-looking statements are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by us will be realized or that they will have the expected effects on our business or operations. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties.

Our ability to achieve the results contemplated by forward-looking statements is subject to a number of factors, any one, or a combination, of which could materially affect our business, financial condition, results of operations, or liquidity. These factors may include, but are not limited to:

If the Company is unable to successfully execute planned strategic initiatives, its recent trend of declining operating performance may continue.

While the Company's net sales continue to grow, comparable stores sales growth was 1.8% and 0.0% in fiscal years 2005 and 2004, respectively. Operating profit has declined each of the past two years. The decline in operating profit is due to lower gross margin percentages, higher selling and administrative expense and higher depreciation expense. The Company is attempting to improve operating results through the implementation of a number of initiatives in its real estate and merchandising areas while cutting selling and administrative costs. If these initiatives are not successful, the two year trend of declining operating profit may continue.

If the Company is unable to compete effectively in the highly competitive discount retail industry, its business and results of operations may be materially adversely affected.

The market for discount retailers is highly competitive. As stated in Item 1, the Company competes for customers, employees, products, and other aspects of our business with a number of other companies. Certain of the Company's competitors have greater financial, distribution, marketing, and other resources that may be devoted to sourcing, promoting, and selling their merchandise. It is possible that increased competition or improved performance by our competitors may reduce our market share, gross margin, and projected operating results, and may materially adversely affect our business and results of operations in other ways.

A decline in general economic condition, consumer spending levels, and other conditions could lead to reduced consumer demand for the Company's merchandise thereby materially adversely affecting its revenues and gross margin.

The Company's operating results can be directly impacted by the health of the United States' economy. The Company's business and financial performance may be adversely impacted by current and future economic conditions, including consumer debt levels, disposable income levels, unemployment levels, energy costs, interest rates, recession, inflation, the impact of natural disasters and terrorist activities, and other matters that influence consumer spending. The economies of four states (Ohio, Texas, California, and Florida) are particularly important as 37% of the Company's stores operate in these states and 39.5% of the Company's net sales occur in these states.

Changes by vendors related to the management of their inventories may reduce the quantity and quality of brand name closeout merchandise available to the Company or increase the Company's cost to acquire brand name closeout merchandise, either of which may materially adversely affect the Company's revenues and gross margin.

The products sold by the Company are sourced from a variety of vendors. The Company cannot control the supply, design, function, or cost of many of the products that it offers for sale. The Company is dependent upon the availability and pricing of closeout merchandise. To the extent that its vendors are better able to manage their inventory levels and reduce the amount of their excess inventory, the amount of closeout merchandise available for sale to the Company could be reduced. If disruptions occur in the availability of closeout merchandise, it is likely to have a material adverse effect on our sales and result in customer dissatisfaction.

The Company relies on foreign sources for significant amounts of merchandise; therefore, the Company's business may be materially adversely affected by risks associated with international trade.

Global sourcing of many of the products we sell is an important factor in driving higher profit margins. During fiscal year 2005, the Company purchased 30.6% of its products directly from overseas suppliers. Our ability to find qualified vendors and to access products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced outside of the U.S. Increased import duties, increased shipping costs, more restrictive quotas, loss of "most favored nation" trading status, currency fluctuations, work stoppages, transportation delays, economic uncertainties including inflation, foreign government regulations, political unrest, natural disasters, war, terrorism, and trade restrictions, including retaliation by the United States against foreign practices, political instability, the financial stability of suppliers, merchandise quality issues, tariffs, and other factors relating to foreign trade are beyond the Company's control. These and other issues affecting our vendors could adversely affect the Company's business and financial performance.

The Company's inability to properly manage its inventory levels and offer merchandise that its customers want may materially adversely impact the Company's business and financial performance.

The Company must maintain sufficient inventory levels to operate its business successfully. However, the Company must also guard against accumulating excess inventory as it seeks to minimize out-of-stock levels across all product categories and to maintain appropriate in-stock levels. The Company obtains a significant portion of its inventory from vendors outside of the United States. These vendors often require lengthy advance notice of our requirements in order to be able to supply products in the quantities that we request. This usually requires the Company to order merchandise, and enter into purchase order contracts for the purchase and manufacture of such merchandise, well in advance of the time these products will be offered for sale. As a result, the Company may experience difficulty in responding to a changing retail environment, which makes it vulnerable to changes in price and changes in consumer preferences. If the Company does not accurately anticipate future demand for a particular product or the time it will take to obtain new inventory, the Company's inventory levels will not be appropriate and its results of operations may be negatively impacted.

The Company may be subject to periodic litigation and regulatory proceedings, including Fair Labor Standards Act and state wage and hour class action lawsuits, and risks associated with changes in laws, regulations and accounting standards that may adversely affect the Company's business and financial performance.

From time to time, the Company may be involved in lawsuits and regulatory actions, including various class action lawsuits that have been brought against the Company for alleged violations of the Fair Labor Standards Act (the "FLSA") and state wage and hour laws. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of any such proceedings. The ultimate resolution of these matters could have a material adverse impact on the Company's financial condition, results of operations, and liquidity. In addition, regardless of the outcome, these proceedings could result in substantial cost and may require us to devote substantial resources to defend the Company. For a description of current legal proceedings, see Note 2 and Note 5 to the consolidated financial statements in this Annual Report on Form 10-K.

Additionally, changes in governmental regulations and accounting standards, including new interpretations and applications of accounting standards, may have adverse effects on the Company's financial condition, results of operations, and liquidity.

The creditworthiness of the Company's former KB Toys business may adversely affect the Company's business and financial performance.

In December 2000, the Company sold the KB Toys business to KB Acquisition Corporation. On January 14, 2004, KB Acquisition Corporation and certain affiliated entities (collectively, "KB Toys") filed for bankruptcy protection pursuant to Chapter 11 of title 11 of the United States Code. At the time of the bankruptcy filing, the Company had indemnification and guarantee obligations ("KB Lease Obligations") with respect to approximately 390 KB Toys store leases and other real property leases. The typical KB Lease Obligation provides that the terms of the underlying lease may be extended, amended, or modified without the consent of the guarantor. KB Toys emerged from bankruptcy during fiscal year 2005. At the date of its emergence, the Company had KB Lease Obligations with respect to approximately 167 remaining KB Toys store leases and KB Toys' main office building. If KB Toys fails to perform on the remaining store leases guaranteed or indemnified by the Company, it could result in a material adverse impact on the Company's financial condition, results of operations, and liquidity. For additional information regarding the KB Toys bankruptcy, see Note 2 to the consolidated financial statements in this Annual Report on Form 10-K.

The Company's inability to comply with the terms of the 2004 Credit Agreement may have a material adverse effect on the Company's capital resources, financial condition, results of operations, and liquidity.

The Company plans to borrow funds under the 2004 Credit Agreement at various times during fiscal year 2006 depending on operating cash flow requirements and the timing of the execution of the $150.0 million share repurchase authorized by the Board of Directors in February 2006. The 2004 Credit Agreement contains financial and other covenants, including, but not limited to, limitations on indebtedness, liens, and investments, as well as the maintenance of two financial ratios — a leverage ratio and a fixed charge coverage ratio. A violation of these covenants may permit the lenders to restrict the Company's ability to further access loans and letters of credit and require the immediate repayment of any outstanding loans. If the Company's financial performance is not in compliance with these covenants, it may have a material adverse effect on the Company's capital resources, financial condition, results of operations, and liquidity.

If the Company is unable to maintain or upgrade its information systems and software programs or if the Company is unable to convert to alternate systems in an efficient and timely manner, the Company's operations may be disrupted or become less efficient.

The Company depends on a variety of information systems for the efficient functioning of its business. The Company relies on certain software vendors to maintain and periodically upgrade many of these systems so that they can continue to support the Company's business. The software programs supporting many of the Company's systems were licensed to the Company by independent software developers. Costs and potential interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could disrupt or reduce the efficiency of the Company's business.

If the Company is unable to retain suitable store locations under favorable lease terms, the Company's financial performance may be negatively affected.

The Company leases almost all of its stores, and a significant number of these leases expire each fiscal year. The Company's financial performance is dependent on consistently growing sales in each market. If the Company is not able to negotiate favorable lease renewals, including the proper determination of which leases to renew, the Company's results of operations, financial position, and cash flows may be negatively affected.

The Company may also be subject to a number of other factors which may individually or in the aggregate, materially affect the Company's business. These factors include, but are not limited to:

- The effect of fuel price fluctuations on the Company's transportation costs and customer purchases;
- Events or circumstances could occur which could create bad publicity for the Company which may negatively impact various business results including sales;
- Infringement of the Company's intellectual property, including the Big Lots trademark, could dilute value from the Company;
- The Company's ability to attract and retain suitable employees;
- The Company's ability to establish effective advertising, marketing, and promotional programs; and
- Other risks described from time to time in the Company's filings with the SEC.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Retail Operations

The Company's stores are located in the United States, predominantly in strip shopping centers, and have an average store size of approximately 29,600 gross square feet, of which an average of 21,300 square feet is selling square feet. The average cost to open a new store in a leased facility during fiscal year 2005 was approximately $1.0 million, including cost of inventory.

With the exception of 53 owned store sites, all stores are leased. Store leases generally provide for fixed monthly rental payments plus the payment, in most cases, of real estate taxes, common area maintenance ("CAM"), and property insurance. In some locations, the leases provide formulas requiring the payment of a percentage of sales as additional rent. Such payments are generally only required when sales exceed a specified level. The typical lease is for an initial term of five to ten years with multiple five-year renewal options. Approximately 70 store leases have sales termination clauses which can result in the Company exiting a location at its option if certain sales volume results are not achieved as indicated in the agreed upon lease conditions.

Excluding closed stores, eight month-to-month leases, and owned locations, store lease expirations were as follows at January 28, 2006:

Fiscal Year:	
2006	189
2007	204
2008	233
2009	241
2010	202
Thereafter	291
Total	1,360

Warehouse and Distribution

At January 28, 2006, the Company operated warehouse and distribution facilities strategically placed across the United States totaling 10,183,300 square feet. The Company's primary warehouse and distribution facilities are owned and located in Ohio, California, Alabama, Oklahoma, and Pennsylvania. The facilities utilize advanced warehouse management technology, which enables high accuracy and efficient product processing from vendors to the retail stores. The combined output of the Company's facilities is approximately 2.7 million cartons per week.

The number of owned and leased warehouse and distribution facilities and the corresponding square footage of the facilities by state at January 28, 2006, were as follows:

				Square Footage		
State	Owned	Leased	Total	Owned	Leased	Total
				(Square footage in thousands)		
Ohio	2	2	4	3,559	731	4,290
California	1	1	2	1,423	467	1,890
Alabama	1	—	1	1,411	—	1,411
Oklahoma	1	—	1	1,297	—	1,297
Pennsylvania	1	—	1	1,295	—	1,295
Total	6	3	9	8,985	1,198	10,183

The Durant, Oklahoma distribution center (the "Durant DC") began receiving merchandise in January 2004 and began shipping merchandise in April 2004. In an effort to further expand its sales in the furniture category nationally, the Company entered into a lease for the Redlands, California distribution center (the "Redlands DC") in April 2004 in order to support the Company's growth of furniture sales in the western regions of the country. In fiscal year 2005, the Company exited the frozen food business and no longer stores perishable merchandise in third party warehouses.

Other Properties

The Company owns the office facility in Columbus, Ohio that serves as its general office for corporate employees.

As a result of funding a mortgage guarantee obligation associated with the KB Toys bankruptcy, the Company obtained title to a distribution center in Pittsfield, Massachusetts (the "Pittsfield DC"). The Company has no intention of using this property in its current operations, and it is available for immediate sale in its present condition. For additional information regarding the Pittsfield DC, see Note 2 to the consolidated financial statements in this Annual Report on Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

No response is required under Item 103 of Regulation S-K. For a discussion of certain litigated matters, please refer to Note 2 and Note 5 to the consolidated financial statements in this Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2005.

EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's executive officers at January 28, 2006, were as follows:

Name	Age	Current Office	Executive Since
Steven S. Fishman	54	Chairman, Chief Executive Officer and President	2005
John C. Martin	55	Executive Vice President, Merchandising	2003
Donald A. Mierzwa	55	Executive Vice President, Store Operations	1998
Brad A. Waite	48	Executive Vice President, Human Resources, Loss Prevention, Real Estate and Risk Management	1998
Lisa M. Bachmann	44	Senior Vice President, Information Technology/Merchandise Planning and Allocation	2002
Joe R. Cooper	48	Senior Vice President and Chief Financial Officer	2000
Charles W. Haubiel II	40	Senior Vice President, General Counsel and Corporate Secretary	1999
Kent A. Larsson	61	Senior Vice President, Special Projects	1998
Timothy A. Johnson	38	Vice President, Strategic Planning and Investor Relations	2004
Paul A. Schroeder	40	Vice President, Controller	2005

Steven S. Fishman became Chairman, Chief Executive Officer and President in July 2005. Prior to joining the Company, Mr. Fishman was the President, Chief Executive Officer and Chief Restructuring Officer of Rhodes, Inc., a furniture retailer. Rhodes, Inc. filed for bankruptcy on November 4, 2004. Mr. Fishman was also Chairman and Chief Executive Officer of Frank's Nursery & Crafts, Inc., a lawn and garden specialty retailer, which filed for bankruptcy on September 8, 2004, and President and Founder of SSF Resources, Inc., an investment and consulting firm.

John C. Martin is responsible for the Company's merchandising. Prior to joining the Company in 2003, Mr. Martin was the President of Garden Ridge Corporation, an arts and crafts retailer. Garden Ridge Corporation filed for bankruptcy on February 2, 2004. Mr. Martin also served as President and Chief Operating Officer of Michaels Stores, Inc., an arts and crafts retailer, and President, Retail Stores Division of OfficeMax Incorporated, an office supply retailer.

Donald A. Mierzwa is responsible for the Company's store operations, including store standards, customer service, personnel development, program implementation, and execution. Mr. Mierzwa has been with the Company since 1989 and has served as Executive Vice President of Store Operations since 1999.

Brad A. Waite is responsible for human resources, loss prevention, real estate, risk management, and administrative services. Mr. Waite joined the Company in 1988 as Director of Employee Relations and held various Human Resources management and senior management positions prior to his promotion to Executive Vice President in July 2000.

Lisa M. Bachmann is responsible for the Company's information technology, merchandise planning and merchandise allocation functions. Ms. Bachmann joined the Company as Senior Vice President of Merchandise Planning, Allocation and Presentation in March 2002, and was promoted to her current role in August 2005. Prior to joining the Company, Ms. Bachmann was Senior Vice President of Planning and Allocation at Ames Department Stores, Inc., a discount retailer. Ames Department Stores, Inc. filed for bankruptcy on August 20, 2001.

Joe R. Cooper was promoted to Senior Vice President and Chief Financial Officer in February 2004, and is responsible for the Company's finance functions. He oversees treasury, tax and investor relations, as well as the reporting, planning and control functions of the business. Mr. Cooper joined the Company as Vice President of Strategic Planning and Investor Relations in May 2000. In July 2000, he assumed responsibility for the treasury department and was appointed Vice President, Treasurer.

Charles W. Haubiel II is responsible for the Company's legal affairs. He was promoted to Senior Vice President, General Counsel and Corporate Secretary in November 2004. Mr. Haubiel joined the Company in

1997 as Senior Staff Counsel and was promoted to Director, Corporate Counsel and Assistant Secretary in 1999 and to Vice President, General Counsel and Corporate Secretary in 2000.

Kent A. Larsson is responsible for the oversight of various special projects at the request of the Company's CEO. Previously, Mr. Larsson was Senior Vice President, Marketing and was responsible for marketing, merchandise presentation, sales promotion, and public relations. Mr. Larsson joined the Company in 1988 as Vice President, Sales Promotion and held various senior management positions in merchandising and marketing prior to his current position.

Timothy A. Johnson is responsible for the Company's strategic planning and investor relations functions. He was promoted to Vice President, Strategic Planning and Investor Relations in February 2004. He joined the company in 2000 as Director of Strategic Planning.

Paul A. Schroeder is responsible for internal and external financial reporting and accounting operations including payroll, accounts payable and inventory control. Mr. Schroeder joined the Company as Director, Accounting Operations in April 2005, and was promoted to Vice President, Controller in September 2005. Prior to joining the Company, Mr. Schroeder was Director of Finance at American Signature, Inc., a furniture retailer, and held various finance positions at Limited Brands, Inc., a clothing and fashion retailer.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common shares are listed on the New York Stock Exchange (the "NYSE") under the symbol "BLI." The following table reflects the high and low sales prices per common share as reported on the NYSE composite tape for the fiscal periods indicated:

	Fiscal Year			
	2005		2004	
	High	Low	High	Low
First Quarter	$13.38	$10.06	$15.61	$13.42
Second Quarter	14.29	10.13	15.62	12.22
Third Quarter	13.19	10.38	13.27	11.05
Fourth Quarter	13.88	11.16	13.26	10.62

The Company has followed a policy of reinvesting available cash in the business or executing share repurchase programs when authorized by the Board of Directors. The Company historically has not paid dividends. Currently, no change in this policy is under consideration by the Board of Directors. The payment of cash dividends in the future will be determined by the Board of Directors taking into account business conditions then existing, including the Company's earnings, financial requirements and condition, opportunities for reinvesting cash, and other factors.

On February 22, 2006, the Company announced that its Board of Directors authorized the repurchase of up to $150.0 million of the Company's common shares. The Company expects the purchases to be made from time to time in the open market or in privately negotiated transactions with such purchases to be completed within one year of the announcement. Common shares acquired through the repurchase program will be available for general corporate purposes.

In May 2004, the Company's Board of Directors authorized the repurchase of up to $75.0 million of the Company's common shares. Pursuant to this authorization, the Company purchased 5.4 million common shares having an aggregate cost of $75.0 million with an average price paid per share of $13.82. All such repurchases were made by the Company prior to the fourth quarter of fiscal year 2004. The repurchased common shares were placed into treasury to be used for general corporate purposes including the issuance of shares for employee benefits, the exercise of stock options, and the issuance of restricted shares.

As of March 27, 2006, there were approximately 1,322 registered holders of record of the Company's common shares.

ITEM 6. SELECTED FINANCIAL DATA

The following statements of operations and balance sheet data have been derived from the Company's consolidated financial statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related Notes. Prior period amounts applicable to the statements of operations have been adjusted to recognize the results of the 130 stores reported in discontinued operations as a result of store closings in fiscal year 2005.

	Fiscal Year (a)				
	2005	2004	2003	2002	2001
(In thousands, except per share amounts and store counts)					
Net sales	$4,429,905	$4,149,252	$3,942,653	$3,647,771	$3,248,622
Cost of sales	2,698,239	2,462,114	2,292,123	2,109,601	1,983,959
Gross margin	1,731,666	1,687,138	1,650,530	1,538,170	1,264,663
Selling and administrative expenses	1,596,136	1,518,589	1,439,444	1,323,543	1,229,085
Depreciation expense	108,657	99,362	88,960	81,552	68,683
Operating profit (loss)	26,873	69,187	122,126	133,075	(33,105)
Interest expense	6,272	24,845	16,443	20,954	20,489
Interest income	(313)	(618)	(1,061)	(843)	(287)
Income (loss) from continuing operations before income taxes	20,914	44,960	106,744	112,964	(53,307)
Income tax expense (benefit)	5,189	13,528	20,833	44,683	(21,038)
Income (loss) from continuing operations	15,725	31,432	85,911	68,281	(32,269)
(Loss) income from discontinued operations, net of tax	(25,813)	(7,669)	(5,691)	7,452	11,287
Net income (loss)	$ (10,088)	$ 23,763	$ 80,220	$ 75,733	$ (20,982)
Income (loss) per common share — basic:					
Continuing operations	$ 0.14	$ 0.28	$ 0.74	$ 0.59	$ (0.28)
Discontinued operations	(0.23)	(0.07)	(0.05)	0.06	0.10
	$ (0.09)	$ 0.21	$ 0.69	$ 0.65	$ (0.18)
Income (loss) per common share — diluted:					
Continuing operations	$ 0.14	$ 0.27	$ 0.73	$ 0.59	$ (0.28)
Discontinued operations	(0.23)	(0.06)	(0.05)	0.06	0.10
	$ (0.09)	$ 0.21	$ 0.68	$ 0.65	$ (0.18)
Weighted-average common shares outstanding:					
Basic	113,240	114,281	116,757	115,865	113,660
Diluted	113,677	114,801	117,253	116,707	113,660
Balance sheet data:					
Total assets	$1,625,497	$1,733,584	$1,800,543	$1,655,571	$1,470,281
Working capital	557,231	622,269	718,620	654,626	555,719
Long-term obligations	5,500	159,200	204,000	204,000	204,000
Shareholders' equity	$1,078,724	$1,075,490	$1,108,779	$1,020,088	$ 922,533
Store data:					
Total gross square footage	41,413	42,975	40,040	37,882	35,528
Total selling square footage	29,856	30,943	29,019	27,593	26,020
Stores opened during the fiscal year	73	103	86	87	78
Stores closed during the fiscal year	(174)	(31)	(36)	(42)	(33)
Stores open at end of the fiscal year	1,401	1,502	1,430	1,380	1,335

(a) References throughout this document to fiscal years 2005, 2004, 2003, 2002, and 2001 refer to the fiscal years ended January 28, 2006; January 29, 2005; January 31, 2004; February 1, 2003; and February 2, 2002, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The discussion and analysis presented below should be read in conjunction with the consolidated financial statements and related Notes. Please refer to Item 1A of this Annual Report on Form 10-K for a discussion of forward-looking statements and certain risk factors that may have a material effect on the Company's business, financial condition, results of operations, and liquidity.

RECENT DEVELOPMENTS

What's Important Now (WIN) Strategy

In 2005, the Company initiated a strategic assessment of its operations. Specifically, the Company is focusing on opportunities for improved financial performance as a result of a continuing detailed analysis of real estate, operating expenses, and merchandising. This strategic assessment is resulting in specific initiatives collectively referred to by the Company as its "WIN Strategy." We believe that the tactical plans for 2006 have been set. Fiscal year 2006 will also be a year of significant testing activity to help develop a long term strategic direction for the Company. The following is a discussion of these specific initiatives.

Real Estate

As part of the real estate analysis, on October 6, 2005, the Company announced its decision to close approximately 126 underperforming stores in addition to the 40 stores previously planned for closure in fiscal year 2005. The Company completed its evaluation of underperforming stores in the fourth quarter and, as a result, 174 stores were closed during fiscal year 2005. The Company does not have any significant continuing involvement in the operations of each store after closure. To determine if cash flows of each closed store met the Statement of Financial Standards ("SFAS") No. 144 criteria for reporting each store in discontinued operations, resulting in their elimination from ongoing operations, the Company evaluated a number of qualitative and quantitative factors, including: proximity to remaining open stores, physical location within a metropolitan or non-metropolitan area, and expected transferability of sales between open and closed stores. Based on these criteria, the Company determined that the results of 130 stores should be reported as discontinued operations for all periods presented. The Company has included in discontinued operations the net sales and associated costs which were directly related to and specifically identifiable in relation to these 130 stores. Certain costs such as general office, field operations, national advertising, fixed distribution costs, and interest expense were not allocated to discontinued operations because these costs were not specifically identifiable at the store level. The table below identifies the significant components of income (loss) from discontinued operations related to these closed stores for fiscal years 2005, 2004, and 2003, respectively.

	Fiscal Year		
	2005	**2004**	**2003**
(In thousands)			
Net sales	$215,154	$225,820	$231,730
Gross margin	74,109	90,299	95,829
Operating income (loss)	(41,130)	(1,662)	6,617
Income (loss) from discontinued operations, net of tax	$ (25,381)	$ (1,021)	$ 4,029

The Company's results of discontinued operations in fiscal year 2005 include pretax losses in the amount of $41.1 million as the result of the 130 stores reported in discontinued operations in fiscal year 2005, including $43.6 million of exit-related pretax costs incurred primarily in the fourth quarter of fiscal year 2005, the reversal of pretax charges of $0.4 million associated with the KB Toys business and a pretax non-cash impairment charge of $0.7 million and other related charges of $0.3 million associated with the reclassification of the Pittsfield DC as held-for-sale and the related write-down of its carrying value to fair value less selling cost. The table below summarizes the type and amount of charges recorded as a result of the store closures and identifies remaining obligations as of January 28, 2006:

	Write-down of Property, Inventory, and Deferred Rent	Severance and Benefits	Lease Termination Costs	Total
(In thousands)				
Charges	$ 19,600	$ 3,300	$20,700	$ 43,600
Payments	—	(1,539)	(2,499)	(4,038)
Non-cash reductions	(19,600)	—	—	(19,600)
Remaining Obligations at January 28, 2006	$ —	$ 1,761	$18,201	$ 19,962

Asset write-downs include assets used in normal operations of retail stores and remaining unrecoverable net book values of fixtures, equipment, and signs. The inventory write-downs above are specific to the markdowns associated with liquidation sales conducted at the closed stores, which qualified for discontinued operations accounting treatment. The Company records markdowns throughout the year in the normal course of business. The markdowns associated with the liquidation sales are the only markdowns included in the table above.

Future cash outlays related to store closure obligations are anticipated to be $10.3 million in fiscal year 2006, $5.2 million in fiscal year 2007, $3.1 million in fiscal year 2008, and $1.4 million thereafter.

Operating Expenses

The Company's review of its operating expenses resulted in personnel reductions in the general office, field operations, and distribution centers. Realignments of resources were made based on the store closings and lower expected store growth in the near term. Additionally, some redundancies between the closeout store operations and the furniture store operations were eliminated.

Merchandising

As part of a review of its merchandising strategy, the Company in fiscal year 2005: 1) closed its stand-alone furniture stores; 2) executed a series of markdowns lowering in-store inventory levels in certain categories and improving inventory turnover; and 3) exited the frozen food business. The Company is continuing to develop its merchandise strategy with the goals of growing sales per square foot and increasing gross margin dollars. The Company has performed customer research and found that brand names, treasure hunt, price, value and savings are most important to its customers. The Company has taken this research and is working with its existing vendors and developing relationships with new vendors to produce a merchandising plan for each category. Certain elements of these plans will be tested and executed in fiscal year 2006. The Company will monitor the results of these tests to modify future merchandising plans as necessary to achieve its goals.

KB Toys and Pittsfield Distribution Center Update

Although the KB Toys business emerged from bankruptcy in fiscal year 2005, the claims process associated with the bankruptcy remains open. As a result of uncertainties associated with the continuance of the bankruptcy claims process, the Company believes it is possible that it will continue to receive in fiscal year 2006 demands from landlords for guarantees related to the KB Lease Obligations. The Company is an unsecured creditor of the bankruptcy trust with respect to losses it has incurred in connection with KB Lease Obligations and is unable to estimate the timing or amount of any recovery it can expect to receive upon resolution of these claims. Accordingly, no recoveries related to the KB Toys bankruptcy have been recorded by the Company. In addition, the typical KB Lease Obligation provides that the terms of the underlying lease may be extended, amended or modified without the consent of the guarantor. The Company has concluded that its reserve for the KB Lease Obligations is adequate at January 28, 2006. Based on the uncertainties related to the KB Lease Obligations, the Company will continue to evaluate the adequacy of these reserves as dictated by the facts and circumstances available to the Company at each future reporting period. In the event additional liability arises from future defaults on the KB Lease Obligations, any related charge would be to discontinued operations.

In fiscal year 2005, the Company initiated plans to dispose of the Pittsfield DC, which was acquired by the Company as a result of an indemnification of a mortgage guarantee satisfied by the Company in fiscal year 2004. The property is available for immediate sale in its present condition and is actively being marketed by a reputable broker. The Company has no intention of using this property in its current operations. As a result, at January 28, 2006, the Pittsfield DC has been classified as held-for-sale, as defined by SFAS No. 144, and accordingly, its carrying value at January 28, 2006 has been adjusted to its estimated fair value less applicable selling costs, resulting in a pretax non-cash impairment charge of $0.7 million and other related charges of $0.3 million included in loss from discontinued operations in fiscal year 2005.

As partial consideration for the sale of the KB Toys business, the Company received a 10-year note from Havens Corners Corporation ("HCC"), a subsidiary of KB Acquisition Corporation and a party to the bankruptcy proceedings, in the aggregate principal amount of $45.0 million (principal and interest together known as the "HCC Note"). Upon receipt of the HCC Note in fiscal year 2000, the Company evaluated its fair value and recorded it at an estimated fair value of $13.2 million. The note bears interest, on an in-kind basis, at the rate of 8.0% per annum; however, the Company discontinued the accrual of interest on the HCC Note in fiscal year 2003 as a result of the KB Toys bankruptcy. Under the KB Toys bankruptcy plan, the Company expects to receive $0.9 million as satisfaction of the HCC Note. In fiscal year 2005, the Company partially charged off the HCC Note in the amount of $6.4 million in order to reflect a remaining balance receivable of $0.9 million. This partial charge off was reported in selling and administrative expenses.

For a discussion of these matters and other matters related to the KB Toys business, see Note 2 to the consolidated financial statements in this Annual Report on Form 10-K.

Amendment to the 2004 Credit Agreement

On October 25, 2005, the Company and its lenders entered into an amendment to the 2004 Credit Agreement in order to eliminate the impact on the covenant calculations of the charges related to the store closing plan discussed in Note 2 to the consolidated financial statements.

Share Repurchase Program

On February 22, 2006, the Company announced that its Board of Directors authorized the repurchase of up to $150.0 million of the Company's common shares. The Company expects the purchases to be made from time to time in the open market or in privately negotiated transactions with such purchases to be completed within one year of the announcement. Common shares acquired through the repurchase program will be available for general corporate purposes.

Results of Operations

The following table compares components of the consolidated statements of operations of the Company as a percentage of net sales:

	Fiscal Year		
	2005	2004	2003
Net sales	100.0%	100.0%	100.0%
Cost of sales	60.9	59.3	58.1
Gross margin	39.1	40.7	41.9
Selling and administrative expenses	36.0	36.6	36.5
Depreciation expense	2.5	2.4	2.3
Operating profit	0.6	1.7	3.1
Interest expense	0.1	0.6	0.4
Interest income	(0.0)	(0.0)	(0.0)
Income from continuing operations before income taxes	0.5	1.1	2.7
Income tax expense	0.1	0.3	0.5
Income from continuing operations	0.4	0.8	2.2
Loss from discontinued operations, net of tax	(0.6)	(0.2)	(0.2)
Net income (loss)	(0.2)%	0.6%	2.0%

The Company has historically experienced, and expects to continue to experience, seasonal fluctuations, with a larger percentage of its net sales and operating profit being realized in the fourth fiscal quarter. In addition, the Company's quarterly results can be affected by the timing of new store openings and store closings, the amount of sales contributed by new and existing stores, the timing of television and circular advertising, and the timing of certain holidays. The Company purchases substantial amounts of inventory and incurs higher shipping costs and higher payroll costs in the third fiscal quarter in anticipation of the increased sales activity during the fourth fiscal quarter.

The following table sets forth the seasonality of net sales and operating profit by fiscal quarter:

	First	Second	Third	Fourth
Fiscal Year 2005				
Net sales percentage of full year	23.5%	22.6%	22.4%	31.5%
Operating profit (loss) as a percentage of full year	46.6	(66.5)	(113.7)	233.6
Fiscal Year 2004				
Net sales percentage of full year	23.3%	22.7%	22.4%	31.6%
Operating profit (loss) as a percentage of full year	18.3	(10.3)	(35.8)	127.8

Furniture Growth

During fiscal year 2005, the Company continued to add furniture departments ranging in size from 2,000 to 5,000 square feet to its closeout stores. The furniture department net sales have grown over the last ten years to a level representing 13.5% of the Company's net sales in fiscal year 2005 compared to 11.7% in fiscal year 2004 and 11.1% in fiscal year 2003. The Company offered a furniture assortment within 1,320 of its 1,401 existing closeout stores at the end of fiscal year 2005.

Fiscal Year 2005 Compared To Fiscal Year 2004

Net Sales

Net sales increased 6.8% to $4,429.9 million in fiscal year 2005 compared to $4,149.3 million in fiscal year 2004. This increase is due to new stores opened in fiscal years 2004 and 2005 and the comparable store sales increase of 1.8% for fiscal year 2005. Comparable store sales are calculated by the Company using all stores that were open for at least two fiscal years as of the beginning of fiscal year 2005. This calculation may not be comparable to other retailers who calculate comparable stores sales based on other methods. Fiscal year 2005 comparable store sales were driven by a 4.6% increase in the value of the average basket partially offset by a 2.8% decline in customer transactions. Customer transactions, which declined 2.8%, continue to be challenging across the discount sector. From a merchandise perspective, Home, which includes furniture, was the best performing category. As part of the Company's merchandising initiatives, clearance markdowns, primarily in the fourth quarter, benefited net sales and comparable store sales and were initiated to reduce inventory levels on slower moving items or classifications.

The following table summarizes comparable store sales, customer transactions, and the value of the average basket for fiscal year 2005 compared to fiscal year 2004:

	Fiscal Year	
	2005	2004
Comparable store sales	1.8%	0.0%
Customer transactions	(2.8)%	(2.0)%
Value of the average basket	4.6%	2.0%

The Company internally evaluates and externally communicates overall sales and merchandise performance based on the following key merchandising categories and believes these categories facilitate analysis of the Company's financial performance. Net sales by product category, net sales by product category as a percentage of total net sales, and net sales change in dollars and percentage in fiscal year 2005 compared to fiscal year 2004 were as follows:

	Fiscal Year					
	2005		2004		Change	
($ in thousands)						
Consumables	$1,275,851	28.8%	$1,247,207	30.1%	$ 28,644	2.3%
Home	1,333,602	30.1	1,153,297	27.8	180,305	15.6
Seasonal and toys	830,526	18.7	814,661	19.6	15,865	1.9
Other	989,926	22.4	934,087	22.5	55,839	6.0
Net sales	$4,429,905	100.0%	$4,149,252	100.0%	$280,653	6.8%

The Consumables category includes sales increases in plastics, paper, and food, partially offset by a decrease in health and beauty. The Home category includes strong performance in furniture and home decor. Seasonal and toys includes sales increases for lawn & garden and toys, partially offset by decreases in trim-a-tree and harvest. The Other category includes strong performances in electronics, home appliances, and tools.

Gross Margin

Gross margin dollars increased 2.6% to $1,731.7 million in fiscal year 2005 compared to $1,687.1 million in fiscal year 2004. Gross margin as a percentage of net sales was 39.1% in fiscal year 2005 compared to 40.7% in fiscal year 2004. This gross margin rate decline of 160 basis points was primarily due to clearance-related markdowns, higher inbound freight costs, and certain initial markup-related cost pressures such as higher resin-based material costs. Inbound freight costs are higher as a result of higher fuel costs and transportation capacity constraints. The Company continues to develop its merchandising strategy focused on increasing gross margin dollars through improved buying decisions, better pricing strategies, and a focus on improving inventory turnover.

Selling and Administrative Expenses

Selling and administrative expenses increased 5.1% to $1,596.1 million in fiscal year 2005 compared to $1,518.6 million in fiscal year 2004. Selling and administrative expenses as a percentage of net sales were 36.0% in fiscal year 2005 compared to 36.6% in fiscal year 2004.

Selling and administrative expenses increased over fiscal year 2004 primarily due to costs associated with higher levels of sales and increased carton volume. The $77.5 million increase was primarily attributable to increased store payroll costs of $20.9 million, increased store occupancy-related costs, including rent and utilities, of $23.0 million, increased general office costs of $11.7 million, the partial charge-off of the HCC Note of $6.4 million, increased advertising costs of $6.0 million, and increased distribution and transportation costs of $5.1 million. The increase in general office is primarily resulting from an increase in wage and benefit-related costs.

Outbound distribution and transportation costs, which were included in selling and administrative expenses (see Note 1 to the consolidated financial statements) increased 2.3% to $223.8 million in fiscal year 2005 compared to $218.7 million in fiscal year 2004. Outbound distribution and transportation expenses as a percentage of net sales were 5.1% in fiscal year 2005 compared to 5.3% in fiscal year 2004. The 20 basis point decrease was primarily due to improved efficiency at the distribution centers, particularly the Durant DC. In addition, productivity has improved at the Columbus DC after two years of re-engineering efforts. Partially offsetting these cost savings were higher diesel fuel costs incurred on outbound freight and higher utility costs at the distribution centers.

Depreciation Expense

Depreciation expense for fiscal year 2005 was $108.7 million compared to $99.4 million for fiscal year 2004. The $9.3 million increase was principally related to new store growth.

Interest Expense

Interest expense decreased 74.6% to $6.3 million in fiscal year 2005 compared to $24.8 million in fiscal year 2004. The $18.5 million decrease in interest expense was due to the $8.9 million debt prepayment charge incurred in fiscal year 2004 in connection with the repayment of the $204.0 million in senior notes privately placed in 2001 (the "Senior Notes") and the retirement of the $300.0 million secured revolving credit agreement entered into in 2001 (the "2001 Credit Agreement"), lower average borrowings in fiscal year 2005, and a lower effective interest rate in fiscal year 2005. The prepayment charge was incurred in order to replace the Senior Notes, which carried a weighted-average yield of 8.2%, and the 2001 Credit Agreement with the variable rate 2004 Credit Agreement. The weighted-average interest rate of the outstanding loans under the 2004 Credit Agreement at January 28, 2006, was 5.1%.

Income Taxes

The effective income tax rate of the continuing operations of the Company was 24.8% for fiscal year 2005 compared to 30.1% for fiscal year 2004. The rate was lower in fiscal year 2005 because of 1) proportionately larger jurisdictional losses in entities with higher marginal income tax rates; 2) the adjustment of loss contingencies to recognize the expiration of the statute of limitations; offset by 3) the write-down of deferred income tax assets as a result of state tax law changes (including Ohio tax reform enacted in the second quarter of fiscal year 2005).

The Company anticipates the fiscal year 2006 effective income tax rate to fall within a range of 36.0% to 40.0%.

Discontinued Operations

The Company recorded a pretax loss of $41.7 million from discontinued operations in fiscal year 2005 compared to a pretax loss of $13.0 million in fiscal year 2004. The Company's results of discontinued operations in fiscal year 2005 include pretax losses in the amount of $41.1 million as the result of 130 stores reported in discontinued operations in fiscal year 2005 which include $43.6 million of exit-related pretax costs incurred primarily in the fourth quarter of fiscal year 2005, the reversal of pretax charges of $0.4 million associated with the KB Toys business and pretax charges of $1.0 million associated with the reclassification of the Pittsfield DC as held-for-sale and the related write-down of its carrying value to fair value less selling cost. The Company's discontinued operations in fiscal year 2004 relate to pretax losses in the amount of $1.7 million as the result of the 130 stores reported in discontinued operations and pretax charges of $11.3 million associated with the KB Toys business.

Fiscal Year 2004 Compared To Fiscal Year 2003

Net Sales

Net sales increased 5.2% to $4,149.3 million in fiscal year 2004 compared to $3,942.7 million in fiscal year 2003. The Company attributes this increase principally to new store growth as comparable store sales were flat for fiscal year 2004. Comparable store sales consisted of a 2.0% increase in the value of the average basket driven by strong gains in hardlines and home décor departments, as well as the addition of 224 new furniture departments. Average basket gains were offset by a 2.0% decrease in the number of customer transactions, which the Company believes was principally the result of the impact that macro economic pressure of higher prices for gas, home heating oil, and other commodities had on the Company's core customer.

The following table summarizes comparable store sales, customer transactions, and the value of the average basket for fiscal year 2004 compared to fiscal year 2003:

	Fiscal Year	
	2004	2003
Comparable store sales	0.0%	3.4%
Customer transactions	(2.0)%	1.7%
Value of the average basket	2.0%	1.7%

Net sales by product category, net sales by product category as a percentage of total net sales, and the net sales change in dollars and percentage in fiscal year 2004 compared to fiscal year 2003 were as follows:

	Fiscal Year					
	2004		2003		Change	
($ in thousands)						
Consumables	$1,247,207	30.1%	$1,196,414	30.3%	$ 50,793	4.2%
Home	1,153,297	27.8	1,046,617	26.6	106,680	10.2
Seasonal and toys	814,661	19.6	819,004	20.8	(4,343)	(0.5)
Other	934,087	22.5	880,618	22.3	53,469	6.1
Net sales	$4,149,252	100.0%	$3,942,653	100.0%	$206,599	5.2%

The Consumables category includes sales increases in food, health and beauty, paper, and pet. The Home category includes strong performance in furniture, domestics, and stationery. Seasonal and toys includes sales weakness in holiday-oriented departments partially offset by growth in toys and lawn & garden. The Other category includes sales increases in electronics, home appliances, and jewelry partially offset by a decrease in apparel.

Gross Margin

Gross margin dollars increased 2.2% to $1,687.1 million in fiscal year 2004 compared to $1,650.5 million in fiscal year 2003. Gross margin as a percentage of net sales was 40.7% in fiscal year 2004 compared to 41.9% in fiscal year 2003. This gross margin rate decline of 120 basis points was primarily due to lower sales in higher margin merchandise, such as holiday-oriented departments in Seasonal and toys, an increased markdown rate due to a flat comparable store sales and the need for additional markdowns on seasonally-sensitive categories, giftable items with low sell-through rates, and selected discontinued styles in furniture.

Selling and Administrative Expenses

Selling and administrative expenses increased 5.5% to $1,518.6 million in fiscal year 2004 compared to $1,439.4 million in fiscal year 2003. Selling and administrative expenses as a percentage of net sales were 36.6% in fiscal year 2004 compared to 36.5% in fiscal year 2003.

Selling and administrative expenses increased over fiscal year 2003 primarily due to an increase in the number of stores, costs associated with higher levels of sales, and increased carton volume. The $79.2 million increase was primarily attributable to increased store payroll costs of $23.5 million, increased distribution and transportation costs of $19.9 million, and increased store occupancy-related costs, including rent and utilities, of $26.2 million.

Outbound distribution and transportation costs, which were included in selling and administrative expenses increased 10.0% to $218.7 million in fiscal year 2004 compared to $198.8 million in fiscal year 2003. Outbound distribution and transportation expenses as a percentage of net sales were 5.3% in fiscal year 2004 compared to 5.0% in fiscal year 2003. The 30 basis point increase was primarily due to the de-leveraging impact of the Durant DC in its first year, rising fuel rates, and increased one-way carrier rates as a result of the revised driver hours of service regulations.

Depreciation Expense

Depreciation expense for fiscal year 2004 was $99.4 million compared to $89.0 million for fiscal year 2003. The $10.4 million increase was principally related to new store growth, store remodels, and the opening of the Durant DC during the first quarter of 2004.

Interest Expense

Interest expense, including the amortization of obligation issuance costs, increased 51.2% to $24.8 million in fiscal year 2004 compared to $16.4 million in fiscal year 2003. The $8.4 million increase in interest expense was due to the $8.9 million debt prepayment charge incurred in connection with the early repayment of the Senior Notes and the 2001 Credit Agreement. This prepayment charge was incurred in order to replace the Senior Notes, which carried a weighted-average yield of 8.2%, and the 2001 Credit Agreement with the variable rate 2004 Credit Agreement. The weighted-average interest rate on the outstanding loans under the 2004 Credit Agreement at January 29, 2005 was 3.2%.

Income Taxes

The effective income tax rate of the continuing operations of the Company was 30.1% for fiscal year 2004 compared to 19.5% for fiscal year 2003. The rate was substantially lower in fiscal year 2003 because of the reversal in fiscal year 2003 of a $15.0 million deferred tax asset valuation allowance related to the partial charge-off of the HCC Note.

In November 2003, the Internal Revenue Service issued Revenue Ruling 2003-112 which clarified the definition of eligible employees for purposes of the Welfare to Work and Work Opportunity tax credits. The Company has filed protective refund claims for its fiscal years 1994 through 2001 based on this ruling. Claims for fiscal years 2002 and 2003 will be filed at a later date but prior to the expiration of the statute of limitations. Because of the contingent nature of this claim, no tax benefit has been recorded for this item.

Discontinued Operations

Discontinued operations resulted in a pretax loss of $13.0 million in fiscal year 2004 compared to a pretax loss of $17.8 million in fiscal year 2003. The Company's discontinued operations in fiscal year 2004 include pretax losses in the amount of $1.7 million for the results of 130 stores reported in discontinued operations and pretax charges of $11.3 million associated with the KB Toys business. The Company's discontinued operations in fiscal year 2003 include pretax income in the amount of $6.6 million for the results of the 130 stores reported in discontinued operations and pretax charges of $24.4 million associated with the KB Toys business.

Capital Resources and Liquidity

Capital Resources

On October 29, 2004, the Company entered into the 2004 Credit Agreement which is scheduled to mature on October 28, 2009. The proceeds of the 2004 Credit Agreement are available for general corporate purposes, working capital, and to repay certain indebtedness of the Company, including all amounts that were outstanding under the 2001 Credit Agreement and the Senior Notes. The pricing and fees related to the

2004 Credit Agreement fluctuate based on the Company's debt rating. Loans made under the 2004 Credit Agreement may be prepaid by the Company without penalty. The 2004 Credit Agreement contains financial and other covenants, including, but not limited to, limitations on indebtedness, liens, and investments, as well as the maintenance of two financial ratios — a leverage ratio and a fixed charge coverage ratio. A violation of these covenants could result in a default under the 2004 Credit Agreement, which would permit the lenders to restrict the Company's ability to further access the 2004 Credit Agreement for loans and letters of credit, and require the immediate repayment of any outstanding loans under the 2004 Credit Agreement. On October 25, 2005, the Company and the lenders entered into an amendment to the 2004 Credit Agreement in order to eliminate the impact on the covenant calculations of the charges related to the store closings discussed in Note 2 to the consolidated financial statements. The Company was in compliance with its amended financial covenants under the 2004 Credit Agreement at January 28, 2006.

The 2004 Credit Agreement permits, at the Company's option, borrowings at various interest rate options based on the prime rate or London InterBank Offering Rate plus applicable margin. The 2004 Credit Agreement also permits, as applicable, borrowings at various interest rate options mutually agreed upon by the Company and the lenders. The weighted average interest rate of the outstanding loans at January 28, 2006, was 5.1%. The Company typically repays and/or borrows on a daily basis in accordance with the terms of the 2004 Credit Agreement. The daily activity is a net result of the Company's liquidity position, which is generally affected by: 1) cash inflows such as store cash and other miscellaneous deposits; and 2) cash outflows such as check clearings, wire and other electronic transactions, and other miscellaneous disbursements.

In addition to revolving credit loans, the 2004 Credit Agreement includes a $30.0 million swing loan sub-limit, a $50.0 million bid loan sub-limit, and a $150.0 million letter of credit sub-limit. At January 28, 2006, the total borrowings outstanding under the 2004 Credit Agreement were $5.5 million, all in swing loans. The borrowings available under the 2004 Credit Agreement, after taking into account the reduction of availability resulting from outstanding letters of credit totaling $65.0 million, were $429.5 million at January 28, 2006.

The Company utilizes its credit facility primarily to manage ongoing and seasonal working capital. Given the seasonality of the Company's business, the amount of borrowings under the 2004 Credit Agreement may fluctuate materially depending on various factors, including the time of year and the Company's need to acquire merchandise inventory. The Company anticipates borrowings and letters of credit through the end of May 2006 to range between $50.0 million and $75.0 million, excluding any impact resulting from the execution of the $150.0 million share repurchase authorized by the Board of Directors in February 2006.

Liquidity

The primary source of liquidity for the Company is cash flows from operations and, as necessary, borrowings under the 2004 Credit Agreement. At January 28, 2006, working capital was $557.2 million.

Cash provided by operating activities was $213.0 million during fiscal year 2005 and resulted primarily from net loss of $(10.1) million, depreciation and amortization expense of $114.6 million and a decrease in net assets of $102.1 million over fiscal year 2004. The $102.1 million decrease in net assets was primarily a result of lower inventory of $58.9 million, higher accounts payable of $11.7 million, higher accrued operating expenses of $22.0 million, and higher other liabilities of $25.0 million. The reduction in inventory is primarily a result of fewer stores open at the end of fiscal year 2005 compared to prior year and the impact of the markdown clearance sales. The higher accrued operating expenses are primarily due to the increased current portion of lease obligation resulting from the closure of certain stores before their full lease term expired. The increase in other liabilities is primarily due to the non-current portion of the lease obligation associated with the closed stores and an increase in the non-current portion of insurance reserves for workers' compensation and general liability.

Cash provided by operating activities was $71.3 million during fiscal year 2004 and resulted primarily from net income of $23.8 million and depreciation and amortization expense of $101.9 million partially offset by an increase in net assets of $70.0 million. The impact of closing the underperforming stores and the series of markdowns taken on slower moving inventory had the effect of significantly strengthening the Company's balance sheet in fiscal year 2005 compared to fiscal year 2004.

Cash used in investing activities of $66.7 million in fiscal year 2005 and $127.8 million in fiscal year 2004 was primarily related to capital expenditures of $68.5 million and $135.3 million in each of the respective fiscal years. Capital expenditures in fiscal year 2005 were primarily due to opening 73 new stores. Capital expenditures in fiscal year 2004 were primarily driven by the re-engineering of the Columbus DC, remodeling 66 existing stores, and opening 103 new stores. Capital expenditure requirements in fiscal year 2006 are anticipated to range between $50 million and $55 million, focused on maintaining existing property and equipment along with a limited number of new store openings and information technology enhancements.

Cash used in financing activities was $147.1 million in fiscal year 2005 and related primarily to the net repayment of borrowings outstanding under the 2004 Credit Agreement. Cash used in financing activities was $115.0 million in fiscal year 2004 including net repayments of debt of $44.8 million and acquisition of treasury stock costing $75.0 million. The Company announced a share repurchase program of $150.0 million on February 22, 2006, which it expects to complete within one year of the announcement. The amount of the repurchase program was based in part on the level of cash provided by operations in fiscal year 2005.

The Company continues to believe that it has, or, if necessary, has the ability to obtain adequate resources to fund ongoing operating requirements and future capital expenditures. Additionally, management is not aware of any current trends, events, demands, commitments, or uncertainties which reasonably can be expected to have a material impact on the Company's capital resources or liquidity.

Contractual Obligations

The following table summarizes payments due under the Company's contractual obligations at January 28, 2006:

	Payments Due by Period (1)				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
(In thousands)					
Long-term debt obligations (2)	$ —	$ —	$ 5,500	$ —	$ 5,500
Operating lease obligations (3) (4)	265,320	430,184	255,895	177,211	1,128,610
Purchase obligations (4) (5)	560,629	189,920	86,631	120,007	957,187
Total contractual obligations (6)	$825,949	$620,104	$348,026	$297,218	$2,091,297

(1) The disclosure of contractual obligations in this table is based on assumptions and estimates that the Company believes to be reasonable as of the date of this report. Those assumptions and estimates may prove to be inaccurate; consequently, the amounts provided in the table may differ materially from those amounts that the Company ultimately incurs. Variables that may cause the stated amounts to vary from those actually incurred include, but are not limited to: the termination of a contractual obligation prior to its stated or anticipated expiration; fees or damages incurred as a result of the premature termination or breach of a contractual obligation; the acquisition of more or less services or goods under a contractual obligation than are anticipated by the Company as of the date of this report; fluctuations in third party fees, governmental charges or market rates that the Company is obligated to pay under contracts it has with certain vendors; and the exercise of renewal options under or the automatic renewal of contracts that provide for the same.

(2) Long-term debt obligations consist of the total borrowings outstanding under the 2004 Credit Agreement. Borrowings under the 2004 Credit Agreement are permitted under various interest rate options based on the prime rate or London InterBank Offering Rate plus applicable margin, as well as borrowings at various interest rate options mutually agreed upon by the Company and the lenders. The Company also had outstanding letters of credit totaling $65.0 million at January 28, 2006. Approximately $57.2 million of the outstanding letters of credit represent stand-by letters of credit and the Company does not expect to meet conditions requiring significant cash payments on these letters of credit; accordingly, they have been excluded from the preceding table. The remaining outstanding letters of credit represent commercial letters of credit whereby the related obligation is included in Purchase Obligations. The table assumes that the 2004 Credit Agreement is paid at maturity. For a further discussion, see Note 4 to the consolidated financial statements.

(3) Operating lease obligations include, among other items, leases for the Company's retail stores, warehouse space, offices, and certain office equipment. The future minimum commitments for store, warehouse space, and office operating leases are $824.3 million. For a discussion of leases, see Note 8 to the consolidated financial statements. Many of the store lease obligations require the Company to pay for CAM, real estate taxes, and property insurance. The Company estimates that future obligations for CAM, real estate taxes, and property insurance are $280.6 million at January 28, 2006. The Company has made certain assumptions and estimates in order to account for its contractual obligations relative to CAM, real estate taxes, and property insurance. Those assumptions and estimates include, but are not limited to: extrapolation of historical data to estimate the Company's future obligations; calculation of the Company's obligations based on per square foot averages where no historical data is available for a particular leasehold; and assumptions related to certain increases over historical data where the Company's obligation is a prorated share of all lessees' obligations within a particular property. The remaining $23.7 million relates primarily to the operating leases of certain office equipment with remaining terms of less than one year or a month-to-month basis.

(4) For purposes of the operating lease and purchase obligation disclosures, the Company has assumed that it will make all payments scheduled or reasonably estimated to be made under those obligations that have a determinable expiration date, and the Company disregarded the possibility that such obligations may be prematurely terminated or extended, whether automatically by the terms of the obligation or by agreement of the Company and its vendor, due to the speculative nature of premature termination or extension. Where an operating lease or purchase obligation is subject to a month-to-month term or another automatically renewing term, the Company disclosed its minimum commitment under such obligation, such as one month in the case of a month-to-month obligation and the then-current term in the case of another automatically renewing term, due to the uncertainty of the length of the eventual term.

(5) Purchase obligations include outstanding purchase orders for retail merchandise issued in the ordinary course of the Company's business that are valued at $389.5 million, the entirety of which represents obligations due within one year of January 28, 2006. Purchase obligations also include a commitment for future inventory purchases totaling $263.3 million at January 28, 2006. While the Company is not required to meet any periodic minimum purchase requirements under this commitment, for purposes of this tabular disclosure, the Company has included the value of the purchases that it anticipates making during each of the reported periods, as purchases will count toward its fulfillment of the aggregate obligation. The remaining $304.4 million is primarily related to distribution and transportation commitments.

(6) The obligations disclosed in this table are exclusive of the contingent liabilities, guarantees, and indemnities related to KB Toys. For further discussion, see Note 2 to the consolidated financial statements.

Off-Balance Sheet Arrangements

As of January 28, 2006, the Company has approximately 167 KB Lease Obligations. The relevant guarantees were issued prior to January 1, 2003, and are not subject to the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 45. The typical KB Lease Obligation provides that the terms of the underlying lease may be extended, amended, or modified without the consent of the guarantor. As a result, the Company is unable to estimate any potential range of loss in the event of non-performance or non-performance by KB Toys, as applicable. See Note 2 to the consolidated financial statements in this Annual Report on Form 10-K for further discussion of KB Toys matters.

Critical Accounting Policies and Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("GAAP"), requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. On an on-going basis, management evaluates its estimates and judgments, including those related to inventories, long-lived assets, insurance reserves, income taxes, contingencies, leases, and pension. Management bases its estimates and judgments on historical experience, current trends, and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Management has discussed the development and selection of its critical accounting policies and estimates with the Audit Committee of the Board of Directors and believes the following assumptions and estimates are the most critical to reporting its results of operations and financial position. See Note 1 to the consolidated financial statements for additional information about the Company's accounting policies.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market using the average cost retail inventory method. Market is determined based on the estimated net realizable value, which generally is the merchandise selling price. Under the average cost retail inventory method, inventory is segregated into departments of merchandise having similar characteristics, at its current retail selling value. Inventory retail selling values are converted to a cost basis by applying specific average cost factors for each merchandise department. Cost factors represent the average cost-to-retail ratio for each merchandise department based on beginning inventory and the fiscal year purchase activity. The average cost retail inventory method requires management to make judgments and contains estimates, such as the amount and timing of markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation and gross margin. These assumptions are based on historical experience and current information.

Permanent markdowns are recorded as a gross margin reduction in the period of management's decision to initiate price reductions with the intent not to return the price to regular retail. Promotional markdowns are recorded as a gross margin reduction in the period the merchandise is sold. Factors considered in the determination of markdowns include current and anticipated demand, customer preferences, age of the merchandise, and seasonal trends.

Shrinkage is recorded as a reduction to inventories and gross margin and is estimated as a percentage of sales for the period from the last physical inventory date to the end of the reporting period. Such estimates are based on the Company's actual experience and the Company's most recent physical inventory results. While it is not possible to quantify the impact from each cause of shrinkage, the Company has loss prevention programs and policies that it believes minimize shrinkage.

Long-Lived Assets

Depreciation and amortization expense of property and equipment are recorded on a straight-line basis using estimated service lives. Leasehold improvements are amortized on a straight-line basis using the shorter of their estimated service lives or the lease term. When a decision has been made to dispose of property and equipment prior to the end of the previously estimated service life, depreciation estimates are revised to reflect the use of the asset over the shortened estimated service life. The cost of assets sold or retired and the related accumulated depreciation are removed from the accounts with any resulting gain or loss included in net income. Maintenance and repairs are charged to expense as incurred. Major repairs that extend service lives are capitalized.

The estimated service lives by major asset category are as follows:

Land improvements	15 years
Buildings and leasehold improvements	5–40 years
Fixtures and equipment	5–15 years
Computer software costs	5 years
Transportation equipment	3–20 years

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the undiscounted future cash flows from the long-lived asset are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the fair value of the asset. The Company's assumptions related to valuation of long-lived assets include, but are not limited to, management's plans for future operations, recent operating results, and projected cash flows. The Company estimates the fair value of its long-lived assets using readily available market information for similar assets.

When material, the Company classifies the results of operations of closed stores as discontinued operations when the operations and cash flows of the stores have been (or will be) eliminated from ongoing operations and the Company no longer has any significant continuing involvement in the operations associated with the stores after closure. The Company generally meets the second criteria on all closed stores as, upon closure, operations cease and the Company has no continuing involvement. To determine if cash flows have been (or will be) eliminated from ongoing operations, the Company evaluates a number of qualitative and quantitative factors, including, but not limited to, proximity to remaining open stores and estimates of sales migration from the closed store to any stores remaining open. The estimated sales migration is based on the Company's historical estimates of sales migration upon opening a new store in a similar market. For purposes of reporting the operations of stores meeting the criteria for discontinued operations, the Company reports net sales, gross margin, and related operating costs that are directly related to and specifically identifiable with respect to those stores' operations as discontinued operations. Certain corporate-level charges, such as general office cost, field operations, national advertising, fixed distribution costs, and interest cost, are not allocated to discontinued operations because the Company believes that these costs are not specific to the stores' operations.

Insurance Reserves

The Company is self-insured for certain losses relating to property, general liability, workers' compensation, and employee medical and dental benefit claims, a portion of which is paid by employees. The Company has purchased stop-loss coverage to limit significant exposure in these areas. Accrued insurance liabilities and related expenses are based on actual claims filed and estimates of claims incurred but not reported. The estimated accruals are determined by applying actuarially-based calculations taking into account known trends and projections of future results. General liability and workers' compensation liabilities are recorded at the Company's estimate of their net present value while other liabilities for insurance reserves are not discounted. Actual future claims experience can impact these calculations and, to the extent that subsequent claim costs vary from estimates, future earnings could be impacted materially.

Income Taxes

Significant judgment is required in determining the provision for income taxes and related accruals and deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various tax authorities. Although the Company believes that its estimates are reasonable, actual results could differ from these estimates resulting in a final tax outcome that may be materially different from that which is reflected in the Company's consolidated financial statements.

Contingencies

The Company is subject to various claims and contingencies including legal actions, lease termination obligations on closed stores, lease indemnification obligations on KB Toys stores, and other claims arising out of the normal course of business. In connection with such claims and contingencies, the Company estimates the likelihood and amounts of any potential obligation using management's judgment. Management uses subject matter experts including various internal and external experts to assist in the estimating process; however, the ultimate outcome of the various claims and contingencies could be materially different from management's estimates, and adjustments to income could be required. With respect to the lease termination obligations and lease indemnification obligations, the Company considers the remaining minimum lease payments, estimated sublease rentals that could be reasonably obtained, and other potentially mitigating factors. In addition, as market conditions or other factors change, the estimate of the obligations could be materially different. The Company continually evaluates the adequacy of its recorded obligations for claims and contingences based on current information, including settlement amounts of individual lease obligations compared to recorded contractual obligations. The Company accrues a liability if the likelihood of an adverse outcome is probable and the amount is estimable. If the likelihood of an adverse outcome is only reasonably possible (as opposed to probable), or if it is probable but an estimate is not determinable, disclosure of a material claim or contingency is made in the notes to the consolidated financial statements. In addition, because it is not permissible to establish a litigation reserve until the loss is both probable and estimable, in some cases there may be insufficient time to establish a reserve prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement).

Lease Accounting

Rent expense is recognized over the term of the lease. The Company recognizes minimum rent starting when possession of the property is taken from the landlord, which normally includes a construction period prior to store opening. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts payable under the lease as deferred incentive rent. The Company also receives tenant allowances, which are recorded in deferred rent and are amortized as a reduction to rent expense over the term of the lease.

Certain leases provide for contingent rents that are not measurable at inception. Contingent rent includes rent based on a percentage of sales that are in excess of a predetermined level. Contingent rent is excluded from minimum rent and is included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

Pension

Pension assumptions are evaluated each year. Outside actuaries are used to provide assistance in calculating the estimated obligations for pension. The Company reviews external data and historical trends to help determine the discount rate and expected long-term rate of return. The Company's objective in selecting a discount rate is to identify the best estimate of the rate at which the benefit obligations would be settled on the measurement date. In making this estimate, the Company reviews rates of return on high-quality, fixed-income investments currently available and expected to be available during the period to maturity of the benefits. This process includes a review of the bonds available on the measurement date with a quality rating of Aa or better. To develop the expected long-term rate of return on assets, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the current or anticipated future allocation of the pension portfolio. The discount rate used to determine the net periodic pension cost for fiscal year 2005 was 5.7%. A 0.5% decrease in the discount rate would increase net periodic pension cost by $0.2 million. The long-term rate of return on assets used to determine net periodic pension cost in fiscal year 2005 was 8.5%. A 1.0% decrease in the expected long-term rate of return on plan assets would increase the net periodic pension cost by $0.5 million.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which requires an entity to measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award using an option-pricing model. The cost of the awards, including the related tax effects, will be recognized in the consolidated statements of operations. This statement eliminates the alternative to use the intrinsic value method for valuing share-based compensation, which typically resulted in recognition of no compensation cost. On April 15, 2005, the SEC issued Release No. 33-8568, which amended the effective date for SFAS No. 123(R), to the first interim or annual period of the first fiscal year beginning after June 15, 2005, with early adoption permitted. The Company adopted SFAS No. 123(R) as of January 29, 2006, using the modified prospective method of adoption, in which compensation cost is recognized for all awards granted subsequent to the date of adoption of this statement as well as for the unvested portion of awards outstanding as of the effective date.

Because the Company previously accounted for options issued under the Company's incentive plans under the intrinsic value method permitted under Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* the adoption of SFAS No. 123(R) is expected to have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position. The impact of SFAS No. 123(R) cannot be accurately estimated at this time, as it will depend on the market value and amount of share-based awards granted in future periods. However, had the Company adopted

SFAS No. 123(R) in a prior period, the impact would approximate the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share. SFAS No. 123(R) also requires that tax benefits received in excess of compensation cost be reclassified from cash provided by operating activities to cash used in financing activities in the consolidated statements of cash flows. This change in classification will reduce net operating cash flows and increase net financing cash flows in the periods after adoption for any excess tax benefits realized. While the amount of this change cannot be estimated at this time, the amount of operating cash flows recognized in prior periods for such excess tax deductions was not significant in fiscal years 2005, 2004, and 2003, respectively.

See Note 10 to the consolidated financial statements for a discussion of the acceleration of vesting on certain stock options in the fourth quarter of fiscal year 2005.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN 47"), *Accounting for Conditional Asset Retirement Obligations,* which is effective no later than the end of fiscal years ending after December 15, 2005. FIN 47 clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, *Accounting for Asset Retirement Obligations,* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred, generally upon acquisition, constructions, or development and/or through the normal operation of the asset. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company adopted the provisions of FIN 47 during the fourth quarter of fiscal year 2005, and this adoption did not have a material impact on the Company's consolidated financial statements in this Annual Report on Form 10-K.

Commitments

For a discussion of commitments, refer to Note 2, Note 4, Note 5, and Note 8 to the consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk from exposure to changes in interest rates associated with the 2004 Credit Agreement. The Company had no fixed rate long-term debt at January 28, 2006. The Company does not expect changes in interest rates in fiscal year 2006 to have a material adverse effect on the Company's financial condition, results of operations, or liquidity; however, there can be no assurances that interest rates will not materially change. The Company does not believe that a hypothetical adverse change of 10% in interest rates would have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

The Company purchases approximately 30.6% of its product directly from overseas suppliers, all of which are purchased in U.S. dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report Of Independent Registered Public Accounting Firm

To the Board of Directors of Big Lots, Inc.
Columbus, Ohio

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting included in Item 9A, that Big Lots, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of January 28, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of January 28, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 28, 2006, of the Company and our report dated April 13, 2006, expressed an unqualified opinion on those financial statements and financial statement schedule.

DELOITTE & TOUCHE LLP

Dayton, Ohio
April 13, 2006

Report of Independent Registered Public Accounting Firm

To the Board of Directors of Big Lots, Inc.
Columbus, Ohio

We have audited the accompanying consolidated balance sheets of Big Lots, Inc. and subsidiaries (the "Company") as of January 28, 2006 and January 29, 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended January 28, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Big Lots, Inc. and subsidiaries at January 28, 2006 and January 29, 2005, and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of January 28, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 13, 2006, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Dayton, Ohio
April 13, 2006

BIG LOTS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Fiscal Year		
	2005	2004	2003
Net sales	$4,429,905	$4,149,252	$3,942,653
Cost of sales	2,698,239	2,462,114	2,292,123
Gross margin	1,731,666	1,687,138	1,650,530
Selling and administrative expenses	1,596,136	1,518,589	1,439,444
Depreciation expense	108,657	99,362	88,960
Operating profit	26,873	69,187	122,126
Interest expense	6,272	24,845	16,443
Interest income	(313)	(618)	(1,061)
Income from continuing operations before income taxes	20,914	44,960	106,744
Income tax expense	5,189	13,528	20,833
Income from continuing operations	15,725	31,432	85,911
Loss from discontinued operations, net of tax benefit of $15,886, $5,313, and $12,103 in fiscal years 2005, 2004, and 2003, respectively	(25,813)	(7,669)	(5,691)
Net income (loss)	$ (10,088)	$ 23,763	$ 80,220
Income (loss) per common share — basic:			
Continuing operations	$ 0.14	$ 0.28	$ 0.74
Discontinued operations	(0.23)	(0.07)	(0.05)
	$ (0.09)	$ 0.21	$ 0.69
Income (loss) per common share — diluted:			
Continuing operations	$ 0.14	$ 0.27	$ 0.73
Discontinued operations	(0.23)	(0.06)	(0.05)
	$ (0.09)	$ 0.21	$ 0.68

The accompanying Notes are an integral part of these consolidated financial statements.

BIG LOTS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except par value)

	January 28, 2006	January 29, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,710	$ 2,521
Inventories	836,092	895,016
Deferred income taxes	78,539	73,845
Other current assets	77,413	63,400
Total current assets	993,754	1,034,782
Property and equipment — net	584,083	648,741
Deferred income taxes	18,609	12,820
Other assets	29,051	37,241
Total assets	$1,625,497	$1,733,584
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 161,470	$ 149,777
Property, payroll, and other taxes	106,858	102,118
Accrued operating expenses	68,752	58,792
Insurance reserves	46,474	45,255
KB lease obligation	27,205	32,498
Accrued salaries and wages	25,171	20,860
Other current liabilities	593	3,213
Total current liabilities	436,523	412,513
Long-term obligations	5,500	159,200
Deferred rent	42,288	39,533
Insurance reserves	42,037	35,955
Other liabilities	20,425	10,893
Shareholders' equity:		
Preferred shares — authorized 2,000 shares; $0.01 par value; none issued	—	—
Common shares — authorized 298,000 shares; $0.01 par value; issued 117,495 shares; outstanding 113,932 shares and 112,780 shares, respectively	1,175	1,175
Treasury shares — 3,563 shares and 4,715 shares, respectively, at cost	(48,294)	(64,029)
Unearned compensation	(2,114)	(1,814)
Additional paid-in capital	470,677	472,790
Retained earnings	657,280	667,368
Total shareholders' equity	1,078,724	1,075,490
Total liabilities and shareholders' equity	$1,625,497	$1,733,584

The accompanying Notes are an integral part of these consolidated financial statements.

BIG LOTS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

(In thousands)

	Common		Treasury		Unearned	Additional Paid-In	Retained	
	Shares	Amount	Shares	Amount	Compensation	Capital	Earnings	Total
Balance — February 1, 2003	115,844	$1,162	321	$ (2,502)	$ —	$458,043	$563,385	$1,020,088
Net income	—	—	—	—	—	—	80,220	80,220
Exercise of stock options and related tax effects	327	3	—	—	—	4,136	—	4,139
Common shares used for matching contributions to savings plan	435	4	—	—	—	4,561	—	4,565
Treasury shares acquired for deferred compensation plan	(12)	—	12	(233)	—	—	—	(233)
Balance — January 31, 2004	116,594	1,169	333	(2,735)	—	466,740	643,605	1,108,779
Net income	—	—	—	—	—	—	23,763	23,763
Exercise of stock options and related tax effects	252	3	—	—	—	1,797	—	1,800
Common shares used for matching contributions to savings plan	316	3	—	—	—	4,764	—	4,767
Treasury shares used for deferred compensation plan	74	—	(74)	216	—	—	—	216
Purchases of common shares	(5,427)	—	5,427	(75,000)	—	—	—	(75,000)
Treasury share issuances for stock options	799	—	(799)	11,113	—	—	—	11,113
Restricted shares awarded	172	—	(172)	2,377	(1,866)	(511)	—	—
Stock-based employee compensation expense	—	—	—	—	52	—	—	52
Balance — January 29, 2005	112,780	1,175	4,715	(64,029)	(1,814)	472,790	667,368	1,075,490
Net loss	—	—	—	—	—	—	(10,088)	(10,088)
Exercise of stock options and related tax effects	600	—	(600)	8,292	—	(1,006)	—	7,286
Treasury shares used for matching contributions to savings plan	447	—	(447)	6,173	—	(1,001)	—	5,172
Treasury shares used for deferred compensation plan	15	—	(15)	26	—	(41)	—	(15)
Restricted shares awarded, net of forfeitures	90	—	(90)	1,244	(1,017)	(227)	—	—
Stock-based employee compensation expense	—	—	—	—	717	162	—	879
Balance — January 28, 2006	113,932	$1,175	3,563	$(48,294)	$(2,114)	$470,677	$657,280	$1,078,724

The accompanying Notes are an integral part of these consolidated financial statements.

BIG LOTS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Fiscal Year		
	2005	**2004**	**2003**
Operating activities:			
Net income (loss)	$ (10,088)	$ 23,763	$ 80,220
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	114,617	101,917	92,407
Deferred income taxes	(10,483)	(826)	(4,471)
Loss on disposition of equipment	1,414	4,063	2,471
Employee benefits paid with common shares	5,172	4,767	4,565
Partial charge-off of HCC Note	6,389	—	9,598
KB Toys matters	—	6,648	9,720
Non-cash share-based compensation expense	879	52	—
Non-cash impairment charges	2,674	—	—
Other	269	908	435
Change in assets and liabilities:			
Inventories	58,924	(65,447)	(53,359)
Other current assets	(8,623)	(5,948)	(405)
Other assets	(4,242)	(8,633)	(3,338)
Accounts payable	11,693	(12,107)	42,071
Other current liabilities	(2,620)	(7,259)	(11,837)
Accrued operating expenses	21,985	9,548	(18,827)
Other liabilities	25,005	19,815	39,569
Net cash provided by operating activities	212,965	71,261	188,819
Investing activities:			
Capital expenditures	(68,503)	(135,291)	(170,175)
Purchase of short-term investments	—	(115,125)	(7,500)
Redemption of short-term investments	—	122,625	—
Cash proceeds from sale of equipment	1,844	245	108
Other	(43)	(210)	(324)
Net cash used in investing activities	(66,702)	(127,756)	(177,891)
Financing activities:			
Proceeds from long-term obligations	2,325,300	1,448,200	305,000
Payment of long-term obligations	(2,479,000)	(1,493,000)	(305,000)
Proceeds from the exercise of stock options	7,015	12,008	3,704
Payment for KB Toys subrogation receivable	—	(6,100)	—
Payment for treasury shares acquired	—	(75,000)	—
Treasury shares used (acquired) for deferred compensation plan	(15)	216	(233)
Deferred bank and bond fees paid	(374)	(1,311)	(460)
Net cash provided by (used in) financing activities	(147,074)	(114,987)	3,011
Increase (decrease) in cash and cash equivalents	(811)	(171,482)	13,939
Cash and cash equivalents:			
Beginning of year	2,521	174,003	160,064
End of year	$ 1,710	$ 2,521	$ 174,003
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 6,065	$ 26,140	$ 17,383
Cash paid for income taxes (excluding impact of refunds)	$ 22,227	$ 23,314	$ 45,213

The accompanying Notes are an integral part of these consolidated financial statements.

Note 1 — Summary of Significant Accounting Policies

Description of Business

All references herein to the "Company" are to Big Lots, Inc. and its subsidiaries. The Company is the nation's largest broadline closeout retailer. At January 28, 2006, the Company operated a total of 1,401 stores in 47 states. The Company's goal is to build upon its leadership position in broadline closeout retailing by providing its customers with great savings on brand name closeouts and other value-priced merchandise through a unique shopping experience. The Company's web site is located at www.biglots.com. The contents of the Company's web site are not part of this report.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with GAAP, and include all the accounts of the Company. All significant intercompany accounts and transactions have been eliminated.

Fiscal Year

The Company follows the concept of a 52-53 week fiscal year, which ends on the Saturday nearest to January 31. Fiscal years 2005, 2004, and 2003 were comprised of 52 weeks. Fiscal year 2006 will be 53 weeks.

Segment Reporting

The Company manages its business based on one segment, broadline closeout retailing. At January 28, 2006 and January 29, 2005, all of the Company's operations were located within the United States of America.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect reported amounts of assets and liabilities, disclosure of significant contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of amounts on deposit with financial institutions, outstanding checks, credit and debit card receivables, and highly liquid investments which are unrestricted to withdrawal or use and which have an original maturity of three months or less. Amounts due from banks for credit and debit card transactions are typically settled in less than seven days. Amounts due from banks for these transactions totaled $15.5 million and $12.6 million at January 28, 2006 and January 29, 2005, respectively. Cash equivalents are stated at cost, which approximates market value.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market using the average cost retail inventory method. Market is determined based on the estimated net realizable value, which generally is the merchandise selling price. Under the average cost retail inventory method, inventory is segregated into departments of merchandise having similar characteristics, and is stated at its current retail selling value. Inventory retail values are converted to a cost basis by applying specific average cost factors for each merchandise department. Cost factors represent the average cost-to-retail ratio for each merchandise department based on beginning inventory and the fiscal year purchase activity.

Note 1 — Summary of Significant Accounting Policies **(Continued)**

Payments Received from Vendors

Payments received from vendors relate primarily to rebates and reimbursement for markdowns and are recognized in the Company's consolidated statements of operations as a reduction to cost of sales when the related inventory is sold.

Store Supplies

When opening a new store, the initial shipment of supplies (including primarily signage, security-related items, bags, and miscellaneous store supplies) is capitalized at the store opening date. Subsequent replenishments of store supplies are expensed. Capitalized store supplies are adjusted as appropriate for changes in estimated quantities or costs.

Intangible Assets

Trademarks, service marks, and other intangible assets are stated at cost and are amortized on a straight-line basis over a period of 15 years. Where there is an indication of impairment, the Company evaluates the fair value and future benefits of the related intangible asset and the anticipated undiscounted future net cash flows from the related intangible asset is calculated and compared to the carrying value. The Company's assumptions related to estimates of future cash flows are based on historical results of cash flows adjusted for management projections for future periods.

Property and Equipment — Net

Property and equipment are stated at cost. Depreciation and amortization expense are recorded using the straight-line method over the estimated service lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated service lives or the lease term. The cost of assets sold or retired and the related accumulated depreciation are removed from the accounts with any resulting gain or loss included in net income. Maintenance and repairs are charged to expense as incurred. Major renewals that extend service lives are capitalized. The Company capitalizes certain computer software costs after the application development stage has been established.

The estimated service lives by major asset category are as follows:

Land improvements	15 years
Buildings and leasehold improvements	5–40 years
Fixtures and equipment	5–15 years
Computer software costs	5 years
Transportation equipment	3–20 years

Capitalized interest was an insignificant amount in fiscal year 2005, $0.6 million in fiscal year 2004, and $3.7 million in fiscal year 2003.

Impairment

The Company has long-lived assets that consist primarily of property and equipment. The Company estimates service lives on buildings and equipment using assumptions based on historical data and industry trends. When a decision has been made to dispose of property and equipment prior to the end of the previously estimated service life, depreciation estimates are revised to reflect the use of the asset over the shortened estimated service life. The Company reviews historical operating results at the store level in order to determine if impairment indicators are present. Impairment is recorded if impairment indicators are present

***Note 1 — Summary of Significant Accounting Policies* (Continued)**

and if the carrying value of the long-lived asset exceeds its anticipated undiscounted future net cash flows. The Company's assumptions related to estimates of future cash flows are based on historical results of cash flows adjusted for management projections for future periods. The Company estimates the fair value of its long-lived assets using readily available market information for similar assets.

Closed Store Accounting

The Company recognizes an obligation for the fair value of lease termination costs when the Company ceases using the leased property in its operations. In measuring fair value, the Company considers the remaining minimum lease payments, estimated sublease rentals that could be reasonably obtained, and other potentially mitigating factors. The Company discounts the estimated obligation using the applicable credit adjusted interest rate, resulting in accretion expense in periods subsequent to the period of initial measurement. The Company continues to monitor the obligation for lease liability in subsequent periods and revises any estimated liabilities, if necessary. Severance and benefits associated with terminating employees from employment are recognized ratably from the communication date through the estimated future service period, unless the estimated future service period is less than 60 days, in which case the Company recognizes the impact at the communication date. Generally all other store closing costs are recognized when incurred.

When material, the Company classifies the results of operations of closed stores as discontinued operations when the operations and cash flows of the stores have been (or will be) eliminated from ongoing operations and the Company no longer has any significant continuing involvement in the operations associated with the stores after closure. The Company generally meets the second criteria on all closed stores, as upon closure, operations cease and the Company has no continuing involvement. To determine if cash flows have been (or will be) eliminated from ongoing operations, the Company evaluates a number of qualitative and quantitative factors, including, but not limited to, proximity to remaining open stores and estimated sales migration from the closed store to any stores remaining open. The estimated sales migration is based on the Company's historical estimates of sales migration upon opening a new store in a similar market. For purposes of reporting the operations of stores meeting the criteria for discontinued operations, the Company reported net sales, gross margin, and related operating costs that are directly attributable to and specifically identifiable with those stores operations as discontinued operations. Certain corporate level charges, such as general office cost, field operations, national advertising, fixed distribution costs, and interest cost are not allocated to discontinued operations because these costs are not specific to the store's operations.

Stock-Based Compensation

The Company measures compensation cost for stock options issued to employees and directors using the intrinsic value-based method of accounting in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*. The Company has adopted the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, and, as permitted by these standards, continues to apply the recognition and measurement principles of APB No. 25 to its stock options and other stock-based employee compensation awards.

Note 1 — Summary of Significant Accounting Policies **(Continued)**

The following table presents net income (loss) and earnings per share if the fair value method had been applied to all outstanding and unvested awards in each period:

	Fiscal Year		
(In thousands, except per share amounts)	2005	2004	2003
Net income (loss):			
As reported	$(10,088)	$23,763	$80,220
Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effect	(10,277)	(3,604)	(6,034)
Pro forma	$(20,365)	$20,159	$74,186
Income (loss) per common share — basic:			
As reported	$ (0.09)	$ 0.21	$ 0.69
Pro forma	$ (0.18)	$ 0.18	$ 0.64
Income (loss) per common share — diluted:			
As reported	$ (0.09)	$ 0.21	$ 0.68
Pro forma	$ (0.18)	$ 0.18	$ 0.63

The increase in pro forma stock-based employee compensation expense in fiscal year 2005 is due to acceleration of vesting of certain stock options (See Note 10 to the consolidated financial statements).

Income Taxes

The Company has generated deferred tax assets and liabilities due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company assesses the adequacy and need for a valuation allowance for deferred tax assets. The Company also considers SFAS No. 109 tax planning strategies in determining the amount of valuation allowance required. The Company has established a valuation allowance to reduce its deferred tax assets to the balance that is more likely than not to be realized.

The effective income tax rate in any period may be materially impacted by the overall level of income (loss) before income taxes, the jurisdictional mix and magnitude of income (loss), changes in the income tax laws (which may be retroactive to the beginning of the fiscal year), changes in the expected outcome or settlement of an income tax contingency, changes in the deferred tax valuation allowance, and adjustments of a deferred tax asset or liability for enacted changes in tax laws or rates.

The Company's income tax accounts reflect estimates of the outcome or settlement of various asserted and unasserted income tax contingencies (and interest thereon) including tax audits and administrative appeals. At any point in time, several tax years may be in various stages of audit or appeal or could be subject to audit by various taxing jurisdictions. This requires a periodic identification and evaluation of significant doubtful or controversial issues. The results of the audits, appeals, and expiration of the statute of limitations are reflected in the income tax accounts accordingly.

Pension

Pension assumptions are evaluated each year. Outside actuaries are used to provide assistance in calculating the estimated obligations for pension. The Company reviews external data and historical trends to help determine the discount rate and expected long-term rate of return. The Company's objective in selecting a discount rate is to identify the best estimate of the rate at which the benefit obligations would be settled on the measurement date. In making this estimate, the Company reviews rates of return on high-quality, fixed-income investments currently available and expected to be available during the period to maturity of

Note 1 — Summary of Significant Accounting Policies **(Continued)**

the benefits. This process includes a review of the bonds available on the measurement date with a quality rating of Aa or better. To develop the expected long-term rate of return on assets, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the current or anticipated future allocation of the pension portfolio.

Insurance Reserves

The Company is self-insured for certain losses relating to property, general liability, workers' compensation, and employee medical and dental benefit claims, a portion of which is paid by employees. The Company has purchased stop-loss coverage to limit significant exposure in these areas. Accrued insurance liabilities and related expenses are based on actual claims filed and estimates of claims incurred but not reported. The estimated accruals are determined by applying actuarially-based calculations. General liability and workers' compensation liabilities are recorded at the Company's estimate of their net present value while other liabilities for insurance reserves are not discounted.

Fair Value of Financial Instruments

The carrying value of cash equivalents, accounts receivable, accounts payable, and accrued expenses approximates fair value because of the relative short maturity of these items. The carrying value of the Company's long-term obligations at January 28, 2006 and January 29, 2005, approximates fair value because the interest rates are variable and approximate current market rates.

Commitments and Contingencies

The Company is subject to various claims and contingencies including legal actions and other claims arising out of the normal course of business. In connection with such claims and contingencies, the Company estimates the likelihood and amounts of any potential obligation using management's judgment. Management uses subject matter experts including various internal and external experts to assist in the estimating process. The Company accrues, if material, a liability if the likelihood of an adverse outcome is probable and the amount is estimable. If the likelihood of an adverse outcome is only reasonably possible (as opposed to probable), or if it is probable but an estimate is not determinable, disclosure of a material claim or contingency is made in the notes to the consolidated financial statements.

Revenue Recognition

The Company recognizes retail sales in its stores at the time the customer takes possession of merchandise. All sales are net of discounts and returns and exclude sales tax. The reserve for retail merchandise returns is estimated based on the Company's prior experience.

The Company recognizes sales revenue related to gift cards at the time of redemption. The liability for the gift cards is established for the cash value at the time of purchase. The liability for outstanding gift cards is recorded in accrued operating expenses.

The Company offers price hold contracts on selected furniture merchandise. Revenue for price hold contracts is recognized when the customer makes the final payment and takes possession of the merchandise. In the event that a sale is not consummated, liquidated damages are recorded as the lesser of: 1) $25; 2) 10% of the merchandise purchase price (exclusive of sales tax); or 3) the amounts deposited by the customer. Cash paid by the customer is recorded in accrued operating expenses.

***Note 1 — Summary of Significant Accounting Policies* (Continued)**

Other Comprehensive Income

The Company's comprehensive income is equal to net income, as there are no items that qualify as other comprehensive income.

Cost of Sales

Cost of sales includes the cost of merchandise (including related inbound freight to the Company's distribution centers, duties, and commissions), markdowns, and inventory shrinkage, net of cash discounts and rebates. The Company classifies warehousing and outbound distribution and transportation costs as selling and administrative expenses. Due to this classification, the Company's gross margin rates may not be comparable to those of other retailers that include warehousing and outbound distribution and transportation costs in cost of sales.

Selling and Administrative Expenses

The Company includes store expenses (such as payroll and occupancy costs), warehousing and outbound distribution and transportation costs to the Company's stores, advertising, purchasing, insurance, non-income taxes, and overhead costs in selling and administrative expenses. Selling and administrative expense rates may not be comparable to those of other retailers that include outbound distribution and transportation costs in cost of sales. Outbound distribution and transportation costs included in selling and administrative expenses were $223.8 million, $218.7 million, and $198.8 million for fiscal years 2005, 2004, and 2003, respectively.

Rent Expense

Rent expense is recognized over the term of the lease. The Company recognizes minimum rent starting when possession of the property is taken from the landlord, which normally includes a construction period prior to store opening. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts payable under the lease as deferred incentive rent. The Company also receives tenant allowances, which are recorded in deferred incentive rent and are amortized as a reduction to rent expense over the term of the lease.

Certain leases provide for contingent rents that are not measurable at inception. Contingent rent includes rent based on a percentage of sales that are in excess of a predetermined level. Contingent rent is excluded from minimum rent and is included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

Advertising Expense

Advertising costs are expensed as incurred, consist primarily of print and television advertisements, and are included in selling and administrative expenses. Advertising expenses were $103.2 million, $97.2 million, and $102.3 million for fiscal years 2005, 2004, and 2003, respectively.

Earnings per Share

Basic earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share includes the additional dilutive effect of stock options and unvested restricted stock, calculated using the treasury stock method.

Note 1 — Summary of Significant Accounting Policies **(Continued)**

Store Pre-opening Costs

Pre-opening costs related to new store openings and the construction periods are expensed as incurred.

Guarantees

In accordance with FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, the Company recognizes a liability for the fair value of guarantees when issued. Guarantees issued prior to January 1, 2003, are not subject to the fair value recognition rules but are required to be disclosed. With respect to guarantee obligations issued prior to January 1, 2003, the Company records a liability if the obligation is estimable in the period incurred.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which requires an entity to measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award using an option-pricing model. The cost of the awards, including the related tax effects, will be recognized in the consolidated statement of operations. SFAS No. 123(R) eliminates the alternative to use the intrinsic value method for valuing share-based compensation, which typically resulted in recognition of no compensation cost. On April 15, 2005, the SEC issued Release No. 33-8568, which amended the effective date for SFAS No. 123(R) to the first interim or annual period of the first fiscal year beginning after June 15, 2005, with early adoption permitted. The Company adopted SFAS No. 123(R) as of January 29, 2006, using the modified prospective method of adoption, in which compensation cost is recognized for all awards granted subsequent to the date of this statement as well as for the unvested portion of awards outstanding as of the effective date.

Because the Company previously accounted for options issued under the Company's incentive plans under the intrinsic value method permitted under APB No. 25, the adoption of SFAS No. 123(R) is expected to have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position. The impact of SFAS 123(R) cannot be accurately estimated at this time, as it will depend on the market value and amount of share based awards granted in future periods. However, had the Company adopted SFAS No. 123(R) in a prior period, the impact would approximate the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share. SFAS No. 123(R) also requires that tax benefits received in excess of compensation cost be reclassified from cash provided by operating activities to cash used in financing activities in the consolidated statements of cash flows. This change in classification will reduce cash provided by operating activities and increase cash used in financing activities for periods after adoption for any excess tax benefits realized. While the amount of this change cannot be estimated at this time, the amount of operating cash flows recognized in prior periods for such excess tax deductions was not significant in fiscal years 2005, 2004, and 2003, respectively.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN 47"), *Accounting for Conditional Asset Retirement Obligations,* which is effective no later than the end of fiscal years ending after December 15, 2005. FIN 47 clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, *Accounting for Asset Retirement Obligations,* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred, generally upon acquisition, constructions, or development

***Note 1 — Summary of Significant Accounting Policies* (Continued)**

and/or through the normal operation of the asset. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company adopted the provisions of FIN 47 during the fourth quarter of fiscal year 2005, and this adoption did not have a material impact on the Company's consolidated financial statements.

Note 2 — Discontinued Operations

The Company reports discontinued operations upon disposition of a component of the Company's business when the cash flows have been or will be eliminated from the Company's ongoing operations and when a long-lived asset qualifies for held-for-sale treatment. As a result, the Company's discontinued operations for fiscal years 2005, 2004, and 2003, are comprised of the following:

	Fiscal Year		
(In thousands)	2005	2004	2003
Closed stores	$(41,130)	$ (1,662)	$ 6,617
KB Toys lease indemnifications	430	(8,623)	(24,411)
Pittsfield distribution center	(999)	(2,697)	—
Total pretax loss	$(41,699)	$(12,982)	$(17,794)

Closed Stores

On October 6, 2005, the Company announced its decision to close approximately 126 underperforming stores in addition to the 40 stores previously planned for closure in fiscal year 2005. The Company completed its evaluation of underperforming stores in the fourth quarter and, as a result, 174 stores were closed during fiscal year 2005. To determine if cash flows of each store have been (or will be) eliminated from ongoing operations, the Company evaluated a number of qualitative and quantitative factors, including: proximity to remaining open stores, physical location within a metropolitan or non-metropolitan statistical area and transferability of sales between open and closed trade areas. Based on these criteria, the Company determined that the results of 130 stores should be reported as discontinued operations for all periods presented. The Company has included in discontinued operations the net sales and associated costs which were directly related to and specifically identifiable with these 130 stores. Certain costs such as general office, field operations, national advertising, fixed distribution costs, and interest expense were not allocated to discontinued operations because these costs were not specifically identifiable at the store level. The table below identifies the significant components of income (loss) from discontinued operations for these closed stores for fiscal years 2005, 2004, and 2003, respectively.

	Fiscal Year		
(In thousands)	2005	2004	2003
Net sales	$215,154	$225,820	$231,730
Gross margin	74,109	90,299	95,829
Operating income (loss)	(41,130)	(1,662)	6,617
Income (loss) from discontinued operations, net of tax	$ (25,381)	$ (1,021)	$ 4,029

Note 2 — Discontinued Operations **(Continued)**

The Company's results of discontinued operations in fiscal year 2005 include pretax losses in the amount of $41.1 million as the result of the 130 stores reported in discontinued operations in fiscal year 2005, including $43.6 million of exit-related pretax costs incurred primarily in the fourth quarter of fiscal year 2005, the reversal of pretax charges of $0.4 million associated with the KB Toys business and a pretax non-cash impairment charge of $0.7 million and other related charges of $0.3 million associated with the reclassification of the Pittsfield DC as held-for-sale and the related write-down of its carrying value to fair value less selling cost. The table below summarizes the type and amount of charges recorded as a result of the store closures and identifies remaining obligations as of January 28, 2006:

(In thousands)	Write-down of Property, Inventory, and Deferred Rent	Severance and Benefits	Lease Termination Costs	Total
Charges	$ 19,600	$ 3,300	$20,700	$ 43,600
Payments	—	(1,539)	(2,499)	(4,038)
Non-cash reductions	(19,600)	—	—	(19,600)
Remaining Obligations at January 28, 2006	$ —	$ 1,761	$18,201	$ 19,962

Asset write-downs include assets used in normal operations of retail stores and include remaining unrecoverable net book values of fixtures, equipment, and signs. The inventory write-downs above are specific to the markdowns associated with the liquidation sales conducted at the closed stores which qualified for discontinued operations accounting treatment. The Company records markdowns throughout the year in the normal course of business. The markdowns associated with the liquidation sales are the only markdowns included in the table above.

Future cash outlays under these store closure obligations are anticipated to be $10.3 million in fiscal year 2006, $5.2 million in fiscal year 2007, $3.1 million in fiscal year 2008, and $1.4 million thereafter.

KB Toys Matters

On January 14, 2004, KB Toys filed for bankruptcy protection pursuant to Chapter 11 of title 11 of the United States Code. KB Toys acquired the business from the Company pursuant to a Stock Purchase Agreement dated as of December 7, 2000 (the "KB Stock Purchase Agreement"). In connection with the KB Toys bankruptcy, the Company incurred charges which have been recognized in the Company's consolidated statements of operations for fiscal years 2005, 2004, and 2003. The following table summarizes these charges:

	Fiscal Year		
(In thousands)	2005	2004	2003
Continuing Operations			
HCC Note — Partial charge-off	$(6,389)	$ —	$ (9,598)
Discontinued Operations			
Lease indemnifications	$ 430	$ (8,623)	$(24,411)
Pittsfield distribution center	(999)	(2,697)	—
Total pretax income (loss) from discontinued operations	$ (569)	$(11,320)	$(24,411)

Note 2 — Discontinued Operations **(Continued)**

The fiscal year 2005 loss from discontinued operations for the Pittsfield DC is excluded from the above table, and thus treated separately from KB Toys matters in fiscal year 2005 because during fiscal year 2005, the Company obtained title to the Pittsfield DC. As discussed below, the fiscal year 2005 loss from discontinued operations for the Pittsfield DC is due to the asset meeting held-for-sale criteria during fiscal year 2005.

HCC Note — Partial Charge-Off

As partial consideration for the sale of the KB Toys business, the Company received the HCC Note. The Company also received a warrant to acquire up to 2.5% of the common stock of KB Holdings, Inc. for a stated price per share ("KB Warrant"). Upon receipt of the HCC Note in fiscal year 2000, the Company evaluated its fair value and recorded it at an estimated fair value of $13.2 million. During fiscal year 2002 and until KB Toys' bankruptcy filing, the Company recorded the interest earned and accretion of the discount utilizing the effective interest rate method and provided necessary reserves against such amounts as a result of its evaluations of the carrying value of the HCC Note. For tax purposes, the HCC Note was originally recorded at its face value of $45.0 million, and the Company incurred tax liability on the interest, which was accrued but was not payable. This resulted in the HCC Note having a tax basis that was greater than the carrying value on the Company's books.

The HCC Note became immediately due and payable at the time of KB Toys' bankruptcy filing. As a result of the bankruptcy filing, the Company ceased accruing interest on the HCC Note, charged off a portion of the HCC Note to reduce its carrying value to fair market value, and wrote down the full value of the KB Warrant resulting in a pretax charge to continuing operations in fiscal year 2003 in the amount of $9.6 million. In addition, the Company recorded a tax benefit in continuing operations of $20.2 million in fiscal year 2003 reflecting the charge-off of the higher tax basis of the HCC Note. As of January 29, 2005, the $7.3 million carrying amount of the HCC Note was included in the Company's other assets on the consolidated balance sheet.

Under the KB Toys bankruptcy plan (the "KB Plan"), confirmed by the bankruptcy court on August 18, 2005, the Company expects to receive $0.9 million on its claim for payment of the HCC Note from the bankruptcy trust. As a result, the Company recorded a pretax charge to continuing operations in fiscal year 2005 in the amount of $6.4 million to reduce the carrying value of the HCC Note to $0.9 million. As of January 28, 2006, the $0.9 million carrying amount of the HCC Note was included in the Company's other assets on the consolidated balance sheet.

Lease Indemnifications

When the Company acquired the KB Toys business from Melville Corporation (now known as CVS New York, Inc., and together with its subsidiaries "CVS") in May 1996, the Company provided, among other things, an indemnity to CVS with respect to any losses resulting from KB Toys' failure to pay all monies due and owing under any KB Toys lease or mortgage obligation. While the Company controlled the KB Toys business, the Company provided guarantees with respect to a limited number of additional store leases. As part of the sale of the KB Toys business by the Company, and in accordance with the terms of the KB Stock Purchase Agreement, KB Toys similarly agreed to indemnify the Company with respect to all lease and mortgage obligations. These guarantee and lease obligations are collectively referred to as the "KB Lease Obligations." In connection with the bankruptcy, KB Toys rejected 226 store leases and two distribution center leases for which the Company believes it may have guarantee or indemnification obligations; however 31 of the rejected store leases expired on or before January 31, 2004 according to the Company's records. The Company estimated and recorded pretax charges in discontinued operations of $24.4 million with respect to 90 leases rejected by KB Toys in fiscal year 2003 and $8.6 million with respect to 72 leases rejected by KB Toys in fiscal year 2004. In fiscal year 2005, an additional 33 store leases and two distribution center

***Note 2 — Discontinued Operations* (Continued)**

leases were rejected. During fiscal year 2005, the Company reversed approximately $0.4 million of the KB Toys lease obligation originally providing for professional fees that are no longer expected to be incurred. Based on payments made to landlords of approximately $5.0 million during fiscal year 2005, and the level of demand notices received from landlords requesting payment, the Company believes that the additional rejections in fiscal year 2005 are adequately provided for by the $27.2 million remaining unpaid KB Lease Obligations recorded as of January 28, 2006.

The claims process associated with the KB Toys bankruptcy remains open. As a result of uncertainties associated with the continuance of the bankruptcy claims process, the Company believes it is possible that it will continue to receive demand notices from landlords in fiscal year 2006. The Company is an unsecured creditor of the bankruptcy trust with respect to losses it has incurred in connection with the KB Lease Obligations and is unable to estimate the timing or amount of any recovery it can expect to receive upon resolution of these claims. Accordingly, no recoveries related to the KB Toys bankruptcy have been recorded by the Company. In addition, the typical KB Lease Obligation provides that the terms of the underlying lease may be extended, amended, or modified without the consent of the guarantor. The Company has concluded that its reserve for KB Lease Obligations is adequate at January 28, 2006. Based on the uncertainties related to the KB Lease Obligations, the Company intends to continue to evaluate the adequacy of these reserves as dictated by the facts and circumstances available to the Company at each future reporting period. In the event additional liability arises from future defaults on these leases, any related charge would be to discontinued operations.

At the date of its emergence and as of January 28, 2006, the Company had KB Lease Obligations with respect to approximately 167 remaining KB Toys store leases and KB Toys' main office building. Because these remaining guarantees were issued prior to January 1, 2003, they are not subject to the fair value recognition provisions of FASB Interpretation No. 45. However, the Company will recognize a liability if a loss in connection with any of the KB Lease Obligations becomes probable and reasonably estimable.

Pittsfield Distribution Center

As a result of the KB Toys bankruptcy, the Company received notice of a default relating to a first mortgage (guaranteed by CVS) on the Pittsfield DC. On November 5, 2004, the Company satisfied its indemnity obligation with respect to the Pittsfield DC at a cost of $8.4 million. The Company recorded a charge to discontinued operations in fiscal year 2004 in the amount of $2.7 million to reflect its best estimate of the difference between the subrogation rights flowing from the indemnification payment and the net realizable value of the Pittsfield DC.

In the fourth quarter of fiscal year 2005, the Company initiated plans to dispose of the Pittsfield DC. The property is available for immediate sale in its present condition and is actively being marketed by a reputable broker. The Company has no intention of using this property in its current operations. As a result, the Pittsfield DC has been classified as held-for-sale, as defined by SFAS No. 144, and accordingly, its carrying value at January 28, 2006 has been adjusted to its estimated fair value less applicable selling costs resulting in a pretax non-cash impairment charge of $0.7 million and other related charges of $0.3 million included in loss from discontinued operations. In order to estimate the fair value of this property, the Company considered, among other things, prior appraisal information, current listing price, current market specific analysis of commercial real estate brokers, and the location of the property. The asset value is included in other current assets on the consolidated balance sheet as of January 28, 2006.

Other KB Toys Matters

In addition to including KB Toys' indemnity of the Company with respect to lease and mortgage obligations, the KB Stock Purchase Agreement contains mutual indemnifications of KB Toys by the Company and of the

Note 2 — Discontinued Operations (Continued)

Company by KB Toys. These indemnifications relate primarily to losses arising out of general liability claims, breached or inaccurate representations or warranties, shared litigation expenses, other payment obligations, and taxes. Under a tax indemnification provision in the KB Stock Purchase Agreement, the Company is to indemnify KB Toys for tax losses generally related to the periods prior to the Company's sale of KB Toys. As a result of uncertainties associated with the continuance of the bankruptcy claims process, the Company continues to assess the effect of the KB Toys bankruptcy on such mutual indemnification obligations and has not made any provision for loss contingencies with respect to any non-lease or non-tax related indemnification obligations. As of January 28, 2006, management does not believe that the impact would have a material adverse effect on the Company's financial condition, results of continuing operations, or liquidity.

During fiscal year 2003, discontinued operations reflect the substantial resolution and closure of tax audit activity, the closing of the statute of limitations, and changes in the expected outcome of tax contingencies related to KB Toys state and local non-income tax matters. As a result of the substantial resolution and closure of these items in fiscal year 2003, the Company reversed previously accrued income taxes of approximately $4.7 million and sales and use taxes of approximately $1.1 million related to KB Toys.

Note 3 — Property and Equipment — Net

Property and equipment — net consists of:

	January 28, 2006	January 29, 2005
(In thousands)		
Land and land improvements	$ 39,882	$ 39,913
Buildings and leasehold improvements	651,998	649,618
Fixtures and equipment	597,216	609,049
Computer software costs	59,922	55,303
Transportation equipment	21,483	22,741
Construction-in-progress	1,706	10,336
Property and equipment — cost	1,372,207	1,386,960
Less accumulated depreciation and amortization	788,124	738,219
Property and equipment — net	$ 584,083	$ 648,741

Depreciation expense included in loss from discontinued operations was $12.2 million, $4.9 million, and $4.7 million for fiscal years 2005, 2004, and 2003, respectively.

In fiscal year 2005, the Company incurred $2.0 million in asset impairment charges, included in selling and administrative expenses on the consolidated statement of operations, for the write-down of long-lived assets of 14 stores. Assets are reviewed for impairment at the store level. Stores with a history of operating losses are reviewed for impairment. The Company compares the net book value of long-lived assets at stores identified by this review, to estimated future cash flows of each specific store in order to determine whether impairment exists. If the assets are not recoverable by the estimated future cash flows, an impairment is recognized to write-down the long-lived assets to fair value.

Note 4 — Long-Term Obligations

On October 29, 2004, the Company entered into the 2004 Credit Agreement. The 2004 Credit Agreement is scheduled to mature on October 28, 2009. The proceeds of the 2004 Credit Agreement are available for general corporate purposes, working capital, and to repay certain indebtedness of the Company, including amounts that were outstanding related to the Senior Notes and the 2001 Credit Agreement. The pricing and fees related to the

Note 4 — Long-Term Obligations (Continued)

2004 Credit Agreement fluctuate based on the Company's debt rating. Loans made under the 2004 Credit Agreement may be prepaid by the Company without penalty. The 2004 Credit Agreement contains financial and other covenants, including, but not limited to, limitations on indebtedness, liens, and investments, as well as the maintenance of two financial ratios — a leverage ratio and a fixed charge coverage ratio. A violation of these covenants could result in a default under the 2004 Credit Agreement, which would permit the lenders to restrict the Company's ability to further access the 2004 Credit Agreement for loans and letters of credit, and require the immediate repayment of any outstanding loans under the 2004 Credit Agreement. On October 25, 2005, the Company and the lenders entered into an amendment to the 2004 Credit Agreement in order to eliminate the impact on the covenant calculations of the estimated charges related to the store closings discussed in Note 2 to the consolidated financial statements. The Company was in compliance with its amended financial covenants at January 28, 2006.

The 2004 Credit Agreement permits, at the Company's option, borrowings at various interest rate options based on the prime rate or London InterBank Offering Rate plus applicable margin. The 2004 Credit Agreement also permits, as applicable, borrowings at various interest rate options mutually agreed upon by the Company and the lenders. The weighted average interest rate of the outstanding loans was 5.1% and 3.2% at January 28, 2006, and January 29, 2005, respectively. The Company typically repays and/or borrows on a daily basis in accordance with the terms of the 2004 Credit Agreement. The daily activity is a net result of the Company's liquidity position, which is generally affected by: 1) cash inflows such as store cash and other miscellaneous deposits; and 2) cash outflows such as check clearings, wire and other electronic transactions, and other miscellaneous disbursements.

In addition to revolving credit loans, the 2004 Credit Agreement includes a $30.0 million swing loan sub-limit, a $50.0 million bid loan sub-limit, and a $150.0 million letter of credit sub-limit. At January 28, 2006, the total borrowings outstanding under the 2004 Credit Agreement were $5.5 million, all in swing loans. At January 29, 2005, the total borrowings outstanding under the 2004 Credit Agreement were $159.2 million, with $129.2 million in revolving credit loans and $30.0 million in swing loans. The borrowings available under the 2004 Credit Agreement, after taking into account the reduction of availability resulting from outstanding letters of credit totaling $65.0 million, were $429.5 million at January 28, 2006.

Due to the early repayment of the Senior Notes and the 2001 Credit Agreement, interest expense in the third quarter of fiscal year 2004 included debt prepayment charges of $8.9 million.

Note 5 — Commitments and Contingencies

The Company has purchase obligations for retail merchandise issued in the ordinary course of its business that are valued at $389.5 million, the entirety of which represents obligations due within one year of January 28, 2006. Purchase obligations also include a commitment for future inventory purchases totaling $263.3 million at January 28, 2006. The Company paid $44.0 million, $52.5 million, and $44.2 million related to this commitment during fiscal years 2005, 2004, and 2003, respectively. The Company is not required to meet any periodic minimum purchase requirements under this commitment. The term of the commitment extends until the purchase requirement is satisfied.

The Company is involved in legal actions and claims, including various employment-related matters, arising in the ordinary course of its business. The Company currently believes that such actions and claims, both individually and in the aggregate, will be resolved without material effect on the Company's financial condition, results of operations, or liquidity. However, litigation involves an element of uncertainty. Future developments could cause these actions or claims to have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

Note 5 — Commitments and Contingencies **(Continued)**

In November 2004, the Company was served a civil complaint wherein it was alleged that the Company had violated the Fair Labor Standards Act regulations by misclassifying as exempt employees its furniture department managers, sales managers, and assistant managers. This lawsuit was filed as a putative collective action in the United States District Court for the Eastern District of Texas, Texarkana Division. A similar action was filed at the end of November 2004, in the United States District Court for the Eastern District of Louisiana. This lawsuit was also filed as a putative collective action alleging that the Company violated the Fair Labor Standards Act by misclassifying assistant managers as exempt. The plaintiffs in both cases are seeking to recover, on behalf of themselves and all other individuals who are similarly situated, alleged unpaid overtime compensation, as well as liquidated damages, attorneys' fees and costs. On July 5, 2005, the District Court in Louisiana issued an order conditionally certifying a class of all current and former assistant store managers who have worked for the Company since November 23, 2001. As a result of that order, notice of the lawsuit was sent to approximately 5,500 individuals who had the right to opt-in to the lawsuit. On August 8, 2005, the District Court in Texas issued an order conditionally certifying a class of all current and former employees who worked for the Company as a furniture department manager at any time between November 2, 2001, and October 1, 2003. As a result of that order, notice was sent to approximately 1,300 individuals who had the right to opt-in to the lawsuit. The Texas case will include furniture department managers only, whereas the Louisiana case will include only assistant store managers. While the original period to opt-in to the lawsuits has passed, the period is expected to be extended for certain individuals based on several factors, the most significant of which is the impact that the hurricanes of 2005 had on mail delivery in certain areas of the Gulf Coast states. Until such time as the opt-in period has fully lapsed, the Company will be unable to determine the number of individuals that will be included in each lawsuit. As of January 28, 2006, approximately 1,100 individuals had joined the Louisiana case, and approximately 300 individuals had joined the Texas case. The Company has the right to file a motion seeking to decertify the classes after discovery has been conducted. Pending discovery on the plaintiffs' claims, the Company cannot make a determination as to the probability of a loss contingency resulting from either of these lawsuits or the estimated range of possible loss, if any. The Company intends to vigorously defend itself against the allegations levied in both lawsuits. However, the ultimate resolution of these matters could have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

On October 13, 2005, the Company was served a civil complaint wherein it was alleged that the Company had violated certain California wage and hour laws. This class action lawsuit was filed in the Superior Court of the State of California, County of Ventura. The plaintiff is seeking to recover, on her own behalf and on behalf of all other individuals who are similarly situated, alleged unpaid wages and rest and meal period compensation, as well as penalties, injunctive and other equitable relief, reasonable attorneys' fees, and costs. Pending discovery on the plaintiff's claims, the Company cannot make a determination as to the probability of a loss contingency resulting from this lawsuit or the estimated range of possible loss, if any. The Company intends to vigorously defend itself against the allegations levied in this lawsuit. However, the ultimate resolution of this matter could have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

The Company announced on August 20, 2003, that it reached a preliminary agreement to settle two class action lawsuits filed in the Superior Court of San Bernardino County, California, relating to the calculation of earned overtime wages for certain former and current store managers and assistant store managers in that state. Final court approval of the preliminary settlement was received on February 4, 2004. During the fourth quarter of fiscal year 2003, the Company adjusted the total related charge to $5.7 million (net of tax), $0.6 million lower than its original estimate which was recorded during the second quarter of fiscal year 2003.

The Company announced on August 20, 2003, that it had reached a preliminary agreement to settle a national class action lawsuit relating to certain advertising practices of KB Toys. The Court issued a final order

Note 5 — Commitments and Contingencies (Continued)

approving the agreement during the fourth quarter of fiscal year 2003. The Company contributed $2.1 million toward the settlement and accordingly, a charge of $1.2 million (net of tax) was recorded to discontinued operations in the third quarter of fiscal year 2003.

For a discussion of discontinued operations, including KB Toys matters, see Note 2 to the consolidated financial statements.

The Company is self-insured for certain losses relating to property, general liability, workers' compensation, and employee medical and dental benefit claims (a portion of which is paid by employees), and the Company has purchased stop-loss coverage in order to limit significant exposure in these areas. Accrued insurance liabilities are actuarially determined based on claims filed and estimates of claims incurred but not reported. With the exception of self-insured claims, taxes, employment-related matters, the lawsuits described above, and the liabilities that relate to the KB Toys bankruptcy, the Company has not recorded any additional significant liabilities for other commitments and contingencies.

Note 6 — Income Taxes

The provision (benefit) for income taxes from continuing operations was comprised of the following:

	Fiscal Year		
	2005	2004	2003
(in thousands)			
Federal — current	$12,512	$ 9,582	$ 8,817
State and local — current	(577)	(336)	7,311
Deferred — federal, state and local	(6,746)	4,282	4,705
Income tax provision	$ 5,189	$13,528	$20,833

The deferred income tax benefit from discontinued operations was $3.7 million for fiscal year 2005 and $5.1 million for fiscal year 2004.

Reconciliation between the statutory federal income tax rate and the effective income tax rate was as follows:

	Fiscal Year		
	2005	2004	2003
Statutory federal income tax rate	35.0%	35.0%	35.0%
Effect of:			
State and local income taxes, net of federal tax benefit	0.6	(1.1)	3.2
Work opportunity tax and other employment tax credits	(5.1)	(2.7)	(1.2)
Expiration of capital loss carryover	47.6	—	—
Valuation allowance	(48.7)	0.9	(12.1)
Reversal of previously accrued federal taxes	(2.8)	—	(6.1)
Charitable donation of appreciated inventory	(2.3)	(1.0)	(0.2)
Other, net	0.5	(1.0)	0.9
Effective income tax rate	24.8%	30.1%	19.5%

The expiration of the capital loss carryover and related reduction in the valuation allowance in 2005 relates to a $9.1 million capital loss that was generated in fiscal year 2000 in connection with the sale of the KB Toys business.

The reduction in the valuation allowance in fiscal year 2003 primarily relates to the reversal of the deferred tax asset associated with the partial charge-off of the HCC Note. The full face value of the HCC Note and

***Note 6 — Income Taxes* (Continued)**

subsequent interest income was included in the Company's income tax returns. In fiscal year 2001, the Company believed it would sell the HCC Note to an unrelated third party at an amount equal to the fair value of the HCC Note as reflected on its financial statements. A sale of the HCC Note would have resulted in a capital loss that the Company believed that it could not have utilized. A valuation allowance of approximately $15.0 million was recorded through the end of fiscal year 2002 as an offset to the federal and state deferred tax assets which represented the difference between the Company's book and tax basis of the HCC Note.

Income tax payments and refunds were as follows:

	Fiscal Year		
	2005	2004	2003
(In thousands)			
Income taxes paid	$ 22,227	$ 23,314	$45,213
Income taxes refunded	(12,166)	(10,183)	(3,692)
Net income taxes paid	$ 10,061	$ 13,131	$41,521

Deferred taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities were as follows:

	January 28, 2006	January 29, 2005
(In thousands)		
Deferred tax assets:		
Workers' compensation and other insurance reserves	$ 33,616	$ 29,278
Uniform inventory capitalization	25,120	29,904
Depreciation and fixed asset basis differences	17,066	16,583
State tax net operating losses, net of federal tax benefit	14,747	12,843
Accrued rent	13,863	8,151
KB store lease and other discontinued operations contingencies	10,773	13,128
Accrued state taxes	9,831	10,209
Closed store accrual	7,198	164
Capital loss carryover	505	11,045
HCC Note	—	1,666
Valuation allowances	(5,961)	(18,116)
Other	39,247	41,136
Total deferred tax assets	166,005	155,991
Deferred tax liabilities:		
Accelerated depreciation and fixed asset basis differences	31,576	37,520
Prepaid expenses	5,028	4,862
Lease construction reimbursements	10,210	2,733
Other	22,043	24,211
Total deferred tax liabilities	68,857	69,326
Net deferred tax assets	$ 97,148	$ 86,665

The reduction in the valuation allowances from fiscal year 2004 to fiscal year 2005 relates primarily to a decrease in the valuation allowances attributable to the expiration of the capital loss carryover and the

Note 6 — Income Taxes (Continued)

carryover of local tax credits. The valuation allowances shown in the table above include state income tax valuation allowances that are net of the federal tax benefit.

Net deferred tax assets were shown separately on the consolidated balance sheets as current and noncurrent deferred income taxes. The following table summarizes net deferred income tax assets from the balance sheet:

(In thousands)	January 28, 2006	January 29, 2005
Current deferred income taxes	$78,539	$73,845
Noncurrent deferred income taxes	18,609	12,820
Net deferred tax assets	$97,148	$86,665

The Company has established valuation allowances to reflect that it is more likely than not that a portion of the federal and state deferred tax assets may not be realized.

The Company has the following income tax loss and credit carryforwards at January 28, 2006 (amounts are shown net of tax excluding the federal income tax effect of the state and local items):

(In thousands)		
Federal:		
Net capital loss carryforwards	$ 505	Expires fiscal years 2008 and 2009
Foreign tax credits	233	Expires fiscal year 2010
State and local:		
State net operating loss carryforwards	22,759	Expire fiscal years 2006 through 2024
California enterprise zone credits	1,942	No expiration date
California alternative minimum tax credits	52	No expiration date
Total income tax loss and credit carryforwards	$25,491	

The Company's income taxes payable have been reduced and certain state net operating loss carryforwards increased by the tax benefits associated with dispositions of employee stock options. The Company receives an income tax benefit calculated as the difference between the fair market value of the stock issued at the time of exercise and the option price. These benefits were credited directly to shareholders' equity and were not significant for any period presented.

In November 2003, the IRS issued Revenue Ruling 2003-112 which clarified the definition of eligible employees for purposes of the welfare to work and work opportunity tax credits. The Company has filed protective refund claims for fiscal years 1994 through 2002. Because of the contingent nature of these claims, no tax benefit has been recorded for this item.

Throughout fiscal year 2005, the Company settled various state audits and as a result reversed approximately $3.6 million of previously accrued state taxes. Closure of various federal and state income tax statutes during the third and fourth quarters of fiscal year 2005 resulted in a net reversal of approximately $1.2 million in federal and state taxes.

In the first quarter of fiscal year 2004, the Company settled a contingency related to a jobs creation tax credit matter and as a result reversed approximately $1.0 million of previously accrued state taxes. Closure of various state and local income tax contingencies also occurred in the fourth quarter of fiscal year 2004 resulting in a net reversal of approximately $1.8 million of previously accrued state income taxes .

Also, during fiscal year 2004, the Company finalized the audit of Mac Frugal's • Bargains Close-outs Inc. ("MFI") consolidated income tax returns for years prior to its acquisition by the Company. MFI was acquired

***Note 6 — Income Taxes* (Continued)**

by the Company in 1998. These issues were substantially settled with the Appeals Division of the IRS in fiscal year 2003. Also in fiscal year 2003 various state and local income tax examinations were substantially resolved or closed. As a result, in fiscal year 2003 the Company reversed approximately $3.1 million in previously accrued federal and state income taxes relating to continuing operations and approximately $4.7 million relating to discontinued operations.

Years after fiscal year 2001 are open to examination by the IRS. Various states routinely audit the Company and its subsidiaries. The Company believes that it has adequately provided for tax, interest, and penalties, if any, that may result from future audit adjustments relating to these years.

Note 7 — Employee Benefit Plans

Pension Benefits

The Company has a qualified defined benefit pension plan (the “Pension Plan”) and a nonqualified supplemental defined benefit pension plan (the “Supplemental Pension Plan”) covering certain employees whose hire date precedes April 1, 1994. Benefits under each plan are based on credited years of service and the employee’s compensation during the last five years of employment. The Company maintains the Supplemental Pension Plan for certain highly compensated executives whose benefits were frozen in the Pension Plan in 1996. The Supplemental Pension Plan is designed to pay benefits in the same amount as if the participants continued to accrue benefits under the Pension Plan. The Company has no obligation to fund the Supplemental Pension Plan, and all assets and amounts payable under the Supplemental Pension Plan are subject to the claims of the general creditors of the Company.

The investments owned by the Pension Plan are managed with the primary objective of utilizing a balanced approach with equal emphasis on income and capital appreciation. Investment results are compared to the performance metrics on a quarterly basis. Changing market cycles require flexibility in asset allocation to allow movement of capital within the asset classes for purposes of increasing investment return and/or reducing risk. The targeted ranges of asset allocations are:

Equity securities	45–70%
Debt securities	30–55%
Cash equivalents	up to 25%

As permitted by the Company’s investment policy, equity securities may include the Company’s common shares. At December 31, 2005 and 2004, the Pension Plan owned 2,594 shares and 1,793 shares of Big Lots, Inc. common shares, respectively.

Financial futures contracts and financial options contracts can be utilized for purposes of implementing hedging strategies. All assets must have readily ascertainable market value and be easily marketable. There were no futures contracts owned by the Pension Plan at January 28, 2006.

The equity portfolio will be generally fully invested with minimal emphasis on short-term market fluctuations and broadly diversified. Global equities (foreign) and American Depository Receipts of similar high quality may also be included to further diversify the portfolio.

Fixed income investments of a single issuer (with the exception of U.S. Government or fully guaranteed agencies) must not exceed 10% of the total fixed income portfolio. Corporate obligation issues must meet or exceed a credit rating of Aa at the time of purchase and during the holding period. There are no limitations on the maximum amount allocated to each credit rating within the fixed income portfolio.

Note 7 — Employee Benefit Plans **(Continued)**

The asset allocations at December 31 by asset category were as follows:

	2005	2004
Equity securities	69.6%	59.9%
Debt securities	26.2	30.0
Cash equivalents	4.2	10.1
Total	100.0%	100.0%

The Company's funding policy of the Pension Plan is to make annual contributions based on advice from its actuaries and evaluation of its cash position, but not less than the minimum required by applicable regulations. The Company expects no required contributions in fiscal year 2006. Additional discretionary contributions could be made upon further analysis of the Pension Plan during fiscal year 2006. The assets allocated to debt securities of 26.2% at December 31, 2005 were below the low end of the targeted range of 30.0%, primarily due to the impact of a $3.8 million contribution made by the Company in December 2005, and the impact of rising interest rates on the value of the debt securities held by the Pension Plan. The asset managers perform an annual reallocation of assets in order to address situations outside of the targeted guidelines.

The Pension Plan and the Supplemental Pension Plan benefits expected to be paid in each of the following ten fiscal years are as follows:

Fiscal Year	
(In thousands)	
2006	$ 4,930
2007	4,976
2008	5,175
2009	5,378
2010	5,690
2011–2015	31,263
Estimated future benefit payments	$57,412

The estimated future benefit payments are based on the same assumptions as those used to measure the Company's benefit obligations at January 28, 2006.

The components of net periodic pension cost were comprised of the following:

	Fiscal Year		
	2005	2004	2003
(In thousands)			
Service cost — benefits earned in the period	$ 3,310	$ 3,494	$ 3,125
Interest cost on projected benefit obligation	3,149	3,274	2,971
Expected investment return on plan assets	(4,267)	(3,420)	(2,866)
Amortization of prior service cost	135	135	135
Amortization of transition obligation	13	13	13
Amortization of actuarial loss	1,325	1,508	1,345
Net periodic pension cost	$ 3,665	$ 5,004	$ 4,723

Note 7 — Employee Benefit Plans **(Continued)**

Weighted-average assumptions used to determine net periodic benefit cost were:

	Fiscal Year		
	2005	2004	2003
Discount rate	5.7%	6.1%	6.8%
Rate of increase in compensation levels	4.0%	4.6%	5.1%
Expected long-term rate of return	8.5%	8.5%	9.0%
Measurement date for plan assets and benefit obligations	12/31/04	12/31/03	12/31/02

The following table sets forth certain information for the Pension Plan and the Supplemental Pension Plan at December 31:

	Pension Plan		Supplemental Pension Plan	
	2005	2004	2005	2004
(In thousands)				
Projected benefit obligation	$51,757	$52,073	$5,001	$5,638
Accumulated benefit obligation	43,468	41,753	4,041	3,799
Fair market value of plan assets	53,217	52,707	—	—

The following schedule provides a reconciliation of projected benefit obligations, plan assets, funded status, and amounts recognized for the Pension Plan and Supplemental Pension Plan at December 31:

	2005	2004
(In thousands)		
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$57,711	$54,154
Service cost	3,310	3,494
Interest cost	3,149	3,274
Benefits paid	(5,791)	(5,256)
Actuarial (gain) loss	(1,621)	2,045
Projected benefit obligation at end of year	$56,758	$57,711
Change in plan assets:		
Fair market value at beginning of year	$52,707	$42,601
Actual return on plan assets	2,001	3,592
Employer contribution	4,300	11,770
Benefits paid	(5,791)	(5,256)
Fair market value at end of year	$53,217	$52,707
Over (under) funded	$ (3,541)	$ (5,004)
Unrecognized actuarial loss	14,949	15,629
Unrecognized transition obligation	106	119
Unrecognized prior service cost	596	731
Net amount recognized	$12,110	$11,475
Prepaid benefit cost	$16,828	$15,938
Accrued benefit cost	(4,718)	(4,463)
Net amount recognized	$12,110	$11,475

Note 7 — Employee Benefit Plans (Continued)

Weighted-average assumptions used to determine benefit obligations for fiscal years 2005 and 2004 were:

	Fiscal Year	
	2005	2004
Discount rate	5.7%	5.7%
Rate of increase in compensation levels	3.5%	4.0%
Measurement date for plan assets and benefit obligations	12/31/05	12/31/04

Savings Plans

The Company has a savings plan with a 401(k) deferral feature and a nonqualified deferred compensation plan with a similar deferral feature for eligible employees. The Company contributes a matching percentage of employee contributions which is invested directly in the Company's common shares. The Company's matching contributions are subject to IRS regulations. During the fiscal years 2005, 2004, and 2003, the Company expensed $5.5 million, $5.2 million, and $4.6 million, respectively, for Company matching contributions. In connection with its nonqualified deferred compensation plan, the Company has purchased mutual fund investments of $8.6 million and $8.5 million at January 28, 2006 and January 29, 2005, respectively, which are recorded in other assets. These investments were classified as trading securities and were recorded at their fair value. The Company has recorded treasury stock of $2.5 million at January 28, 2006 and January 29, 2005, in connection with the nonqualified deferred compensation plan.

Note 8 — Leases

Leased property consists primarily of the Company's retail stores and certain warehouse space. Many of the store leases provide that the Company pay for real estate taxes, CAM, and property insurance. Certain leases provide for contingent rents or may have rent escalations. In addition, many leases provide options to extend the original terms for an additional one to fifteen years.

Total retail store and warehouse lease expense, including real estate taxes, CAM, and property insurance, charged to continuing operations for operating leases of stores, warehouses, and offices consisted of the following:

	Fiscal Year		
	2005	2004	2003
(In thousands)			
Minimum leases	$240,656	$224,124	$201,286
Contingent leases	1,159	894	474
Total retail store and warehouse lease expense	$241,815	$225,018	$201,760

Lease expense for operating leases associated with the 130 closed stores included in loss from discontinued operations was $15.2 million, $16.8 million, and $15.8 million for 2005, 2004, and 2003, respectively.

Lease related income (expense) for the KB Toys business included in loss from discontinued operations was $0.4 million, $(8.6) million and $(24.4) million for fiscal years 2005, 2004, and 2003, respectively. This lease expense was related to KB Toys leases guaranteed by the Company which were rejected during the KB Toys bankruptcy.

Note 8 — Leases (Continued)

Future minimum commitments for store and warehouse operating leases, excluding closed store leases and excluding real estate taxes, CAM, and property insurance, at January 28, 2006, were as follows:

Fiscal Year	
(In thousands)	
2006	$186,999
2007	164,750
2008	140,572
2009	109,001
2010	75,777
Thereafter	128,971
Total store and warehouse operating leases	$806,070

Note 9 — Shareholders' Equity

Earnings per Share

There are no adjustments required to be made to weighted-average common shares outstanding for purposes of computing basic and diluted earnings per share and there were no securities outstanding at January 28, 2006, which were excluded from the computation of earnings per share.

A reconciliation of the number of weighted-average common shares outstanding used in the basic and diluted earnings per share computations is as follows:

	Fiscal Year		
	2005	2004	2003
(In thousands)			
Weighted-average common shares outstanding:			
Basic	113,240	114,281	116,757
Dilutive effect of stock options and restricted shares	437	520	496
Diluted	113,677	114,801	117,253

The dilutive effect of stock options excludes the incremental effect related to outstanding stock options with an exercise price in excess of the common shares weighted-average market price because their impact is antidilutive. At the end of fiscal years 2005, 2004, and 2003, stock options outstanding with an exercise price greater than the weighted-average market price were 5.0 million, 5.1 million, and 6.5 million, respectively.

On February 22, 2006, the Company announced that its Board of Directors authorized the repurchase of up to $150.0 million of the Company's common shares. The Company expects the purchases to be made from time to time in the open market or in privately negotiated transactions with such purchases to be completed within one year of the announcement. Common shares acquired through the repurchase program will be available for general corporate purposes.

In May 2004, the Company's Board of Directors authorized the repurchase of up to $75.0 million of the Company's common shares. Pursuant to this authorization, the Company purchased 5.4 million common shares having an aggregate cost of $75.0 million with an average price paid per share of $13.82. The repurchased common shares were placed into treasury and are used for general corporate purposes including the issuance of shares for employee benefits, the exercise of stock options, and the issuance of restricted shares.

Note 10 — Stock Plans

Stock Option Plans

In May 2005, the shareholders of the Company approved the Big Lots 2005 Long-Term Incentive Plan (the "2005 Incentive Plan"). The 2005 Incentive Plan replaced the Big Lots, Inc. 1996 Performance Incentive Plan, as amended (the "1996 Incentive Plan"). Beginning January 1, 2006, equity awards will be issued under the 2005 Incentive Plan.

The 1996 Incentive Plan and 2005 Incentive Plan authorize the issuance of incentive and nonqualified stock options, restricted stock, performance units, and stock appreciation rights. The Company has not issued performance units or stock appreciation rights. As a result of its expiration, there are no common shares available for issuance under the 1996 Incentive Plan at January 28, 2006. The number of common shares available for issuance under the 2005 Incentive Plan consists of 1) an initial allocation of 1,250,000 common shares, 2) 2,001,142 common shares, the number of common shares that were available under the 1996 Incentive Plan upon its expiration, and 3) an annual increase equal to 0.75% of the total number of issued common shares (including treasury shares) as of the start of each of the Company's fiscal years during which the 2005 Incentive Plan is in effect. The Compensation Committee of the Board of Directors ("Committee"), which is charged with administering the 2005 Incentive Plan, determines the term of each award. Options granted to employees generally expire on the lesser of: 1) the term set by the Committee, which has historically been 7 to 10 years from the grant date; 2) one year following death or disability; or 3) three months following termination. Stock options granted under the 1996 Incentive Plan and 2005 Incentive Plan may be either nonqualified or incentive stock options, and the exercise price may not be less than the fair market value of the underlying common shares on the date of award. Unless there is a change in control of the Company, the options generally vest ratably over a four-year or five-year period. See below for a discussion of the acceleration of vesting for certain options which occurred in the fourth quarter of fiscal year 2005. Upon a change in control of the Company, all awards outstanding automatically vest.

The Company maintains the Big Lots Director Stock Option Plan ("Director Stock Option Plan") for non-employee directors. The number of common shares initially available for issuance under the Director Stock Option Plan was 781,250 shares. The Director Stock Option Plan is administered by the Committee pursuant to an established formula. Neither the Board of Directors nor the Committee exercises any discretion in administration of the Director Stock Option Plan. Grants are made annually, approximately 90 days following the Annual Meeting of Shareholders, at an exercise price equal to 100% of the fair market value on the date of grant. The present formula provides to each non-employee director an annual grant of an option to acquire 10,000 of the Company's common shares which become fully exercisable over a three-year period: 20% of the shares on the first anniversary, 60% on the second anniversary, and 100% on the third anniversary. Options granted to non-employee directors expire on the lesser of: 1) 10 years plus one month; or 2) one year following death or disability; or 3) at the end of the trading window immediately following termination.

On November 21, 2005, the Company announced that the Compensation Committee, after discussion with the Board of Directors, approved accelerating the vesting of stock options representing approximately 3.8 million of the Company's shares awarded on or before February 21, 2005, under the 1996 Incentive Plan and the Director Stock Option Plan. The Committee did not, however, accelerate the vesting of stock options granted after February 21, 2005, including those granted to the Company's current Chief Executive Officer, Steven S. Fishman, or the vesting of stock options granted to the Company's former Chief Executive Officer, Michael J. Potter. The decision to accelerate vesting of stock options was made primarily to reduce non-cash compensation expense that would have been recorded in future periods following the adoption of SFAS No. 123(R) in the first quarter of fiscal year 2006. The Company also believes this action will have a positive effect on associate morale and retention. This action resulted in an insignificant amount of expense recorded in the fourth quarter of fiscal year 2005 for the impact of the shares estimated to be modified and is expected to

***Note 10 — Stock Plans* (Continued)**

enable the Company to eliminate pretax expense of approximately $11.7 million over the five year period during which the stock options would have vested, subject to the impact of additional adjustments related to cancelled stock options. The acceleration resulted in additional proforma stock-based employee compensation expense in fiscal year 2005 as disclosed in Note 1. The Company also believes this action will have a positive effect on employee morale and retention. Additionally, the Committee imposed a holding period that requires all directors, executive vice presidents, and senior vice presidents (including the Company's named executive officers other than Messrs. Fishman and Potter whose stock options were not accelerated) to refrain from selling shares acquired upon the exercise of the accelerated stock options until the date on which the exercise would have been permitted under the stock option's original vesting terms or, if earlier, the director or officer's death, permanent and total disability, or termination of employment.

As required by the disclosure provisions of SFAS No. 123, the Company estimates the fair value of stock options in order to present the proforma net income and earnings per share as if the fair value method of accounting for options had been adopted. For purposes of this disclosure, the Company used a binomial model to determine the fair value of all options granted on or after February 1, 2004. The fair value of stock options granted prior to February 1, 2004, was determined using the Black-Scholes model. The Company believes that the binomial model considers characteristics of fair value option pricing that are not available under the Black-Scholes model and, therefore, the binomial model provides a more accurate estimate of fair value. Similar to the Black-Scholes model, the binomial model takes into account variables such as volatility, dividend yield rate, and risk-free interest rate. In addition, the binomial model considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option. The assumptions used in the option pricing models for each of the respective periods were as follows:

	Fiscal Year		
	2005	2004	2003
Weighted-average fair value of options granted	$4.74	$5.48	$5.49
Risk-free interest rates	3.9%	3.1%	3.0%
Expected life (years)	5.5	5.2	4.8
Expected volatility	42.4%	39.0%	58.0%
Expected annual forfeiture	3.0%	3.0%	0.0%

The following table summarizes information about the Company's stock option plans at January 28, 2006:

Range of Prices		Options Outstanding			Options Exercisable	
Greater Than	Less Than or Equal to	Options Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$ 7.79	$11.50	2,469,529	6.3	$10.96	1,741,529	$10.90
$11.51	$11.75	2,417,850	7.1	11.66	2,321,850	11.66
$11.76	$13.50	1,982,630	5.5	12.28	1,699,630	12.31
$13.51	$16.50	2,537,280	7.0	15.18	2,257,280	15.20
$16.51	$43.38	1,283,456	2.3	28.90	1,283,456	28.90
		10,690,745	6.0	$14.52	9,303,745	$14.87

***Note 10 — Stock Plans* (Continued)**

Changes in the status of outstanding options were as follows:

	Options	Price [(a)]
Outstanding at February 1, 2003	9,405,093	$15.56
Granted	2,285,400	11.37
Exercised	(327,675)	11.27
Forfeited	(637,902)	16.69
Outstanding at January 31, 2004	10,724,916	14.73
Granted	2,718,800	14.77
Exercised	(1,050,787)	11.42
Forfeited	(1,783,429)	15.31
Outstanding at January 29, 2005	10,609,500	14.97
Granted	2,081,800	11.52
Exercised	(600,021)	11.69
Forfeited	(1,400,534)	14.76
Outstanding at January 28, 2006	10,690,745	$14.52

(a) Weighted-average per share exercise price.

During fiscal year 2005, the Company granted 100,000 restricted common shares with a closing market price of $11.25. These restricted shares vest in thirds upon the attainment of mutually agreed common share price targets and fully after five years of service or upon the change in control of the Company.

During fiscal year 2004, the Company granted 172,000 restricted common shares with a closing market price of $10.85. These restricted shares vest equally over three years. During fiscal year 2005, 53,998 of the restricted shares granted in fiscal year 2004 vested and 10,000 of the restricted shares granted in fiscal year 2004 were forfeited. The restricted share grants were made in accordance with the 1996 Incentive Plan. The restricted shares granted during fiscal year 2004 will fully vest if the employee is involuntarily terminated without cause or upon change in control of the Company. The 2004 restricted share grants will be forfeited, in whole or in part, as applicable, if the employee voluntarily terminates his or her employment or if the employee is terminated for cause.

The fair value of the restricted shares as measured at the grant date is amortized on a straight-line basis to selling and administrative expense over the vesting period. The unamortized portion of the restricted shares expense is included as a separate component of shareholders' equity.

Note 11 — Business Segment Data

The following data is presented in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

	Fiscal Year		
	2005	2004	2003
(In thousands)			
Consumables	$1,275,851	$1,247,207	$1,196,414
Home	1,333,602	1,153,297	1,046,617
Seasonal and toys	830,526	814,661	819,004
Other	989,926	934,087	880,618
Net sales	$4,429,905	$4,149,252	$3,942,653

The Home category includes furniture, domestics, and home décor departments. The Other category primarily includes electronics, apparel, home maintenance, small appliances, and tools. The Company internally evaluates and externally communicates overall sales and merchandise performance based on these key merchandising categories and believes that these categories facilitate analysis of the Company's financial performance.

Note 12 — Selected Quarterly Financial Data (Unaudited)

The selected quarterly financial data does not agree to previous quarterly reports issued by the Company as a result of the 130 stores reported in discontinued operations and closed by the Company in the fourth quarter of fiscal year 2005. Summarized quarterly financial data for fiscal years 2005 and 2004 was as follows:

Fiscal Year 2005	First	Second	Third	Fourth	Year
(In thousands, except per share amounts) [(a)]					
Net sales	$1,043,084	$1,000,511	$991,408	$1,394,902	$4,429,905
Gross margin	425,658	401,362	387,623	517,023	1,731,666
Income (loss) from continuing operations	7,266	(12,945)	(16,249)	37,653	15,725
Income (loss) from discontinued operations	534	(807)	(2,539)	(23,001)	(25,813)
Net income (loss)	7,800	(13,752)	(18,788)	14,652	(10,088)
Income (loss) per common share — basic:					
Continuing operations	0.06	(0.11)	(0.14)	0.33	0.14
Discontinued operations	0.01	(0.01)	(0.03)	(0.20)	(0.23)
	0.07	(0.12)	(0.17)	0.13	(0.09)
Income (loss) per common share — diluted:					
Continuing operations	0.06	(0.11)	(0.14)	0.33	0.14
Discontinued operations	0.01	(0.01)	(0.03)	(0.20)	(0.23)
	$ 0.07	$ (0.12)	$ (0.17)	$ 0.13	$ (0.09)

Fiscal Year 2004	First	Second	Third	Fourth	Year
(In thousands, except per share amounts) [(a)]					
Net sales	$962,749	$942,487	$929,928	$1,314,088	$4,149,252
Gross margin	396,955	384,800	376,038	529,345	1,687,138
Income (loss) from continuing operations	5,811	(7,063)	(24,018)	56,702	31,432
Income (loss) from discontinued operations	540	(668)	(8,045)	504	(7,669)
Net income (loss)	6,351	(7,731)	(32,063)	57,206	23,763
Income (loss) per common share — basic:					
Continuing operations	0.05	(0.06)	(0.21)	0.50	0.28
Discontinued operations	—	(0.01)	(0.08)	0.01	(0.07)
	0.05	(0.07)	(0.29)	0.51	0.21
Income (loss) per common share — diluted:					
Continuing operations	0.05	(0.06)	(0.21)	0.50	0.27
Discontinued operations	—	(0.01)	(0.08)	0.01	(0.06)
	$ 0.05	$ (0.07)	$ (0.29)	$ 0.51	$ 0.21

(a) Income (loss) per share calculations for each quarter are based on the applicable weighted-average shares outstanding for each period and may not necessarily be equal to the full year income (loss) per share amount.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, performed an evaluation of the Company's disclosure controls and procedures pursuant to paragraph (b) of Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded, as of the end of the period covered by this report, that such disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Internal control systems, no matter how well designed and operated, have inherent limitations, including the possibility of the circumvention or overriding of controls. Due to these inherent limitations, the Company's internal control over financial reporting may not prevent or detect misstatements. As a result, projections of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control system as of January 28, 2006. In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework. Based on this assessment, management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company maintained effective internal control over financial reporting, in all material respects, as of January 28, 2006.

The Company's Independent Registered Public Accounting Firm, Deloitte & Touche LLP, has issued an attestation report on management's assessment of the Company's internal control over financial reporting. The report appears in the Financial Statements and Supplementary Data section of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

No changes in the Company's internal control over financial reporting, as that term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act, occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the captions "Governance of the Company" and "Stock Ownership" in the 2006 Proxy Statement, with respect to directors, the code of ethics, the Audit Committee, the audit committee financial experts of the Company, and Section 16(a) beneficial ownership reporting compliance, is incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the captions "Governance of the Company — Director Compensation," "Compensation Committee Report on Executive Compensation," and "Executive Compensation" in the 2006 Proxy Statement, with respect to director and executive compensation, is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Equity Compensation Plan Information

The information contained under the captions "Executive Compensation — Equity Compensation Plan Information" and "Stock Ownership — Ownership of Company Stock by Certain Beneficial Owners and Management" in the 2006 Proxy Statement, with respect to securities authorized for issuance under equity compensation plans and security ownership of certain beneficial owners and management, is incorporated herein by reference in response to this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Pre-Approval Policy

The Audit Committee of the Board has adopted the Audit and Non-Audit Services Pre-Approval Policy. Under the policy, the Audit Committee is required to pre-approve all audit and permissible non-audit services performed by the independent auditor in order to assure that the provision of those services does not impair the independent auditor's independence. Pre-approval is detailed as to the particular service or category of service and is subject to a specific engagement authorization. The Audit Committee requires the independent auditor and management to report on the actual fees incurred for each category of service at Audit Committee meetings throughout the year.

During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services which have not been approved. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditor. The Audit Committee may delegate pre-approval authority to one or more of its members for those instances when pre-approval is needed prior to a scheduled Audit Committee meeting. The member or members to whom pre-approval authority is delegated must report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Consistent with the policy, all audit and non-audit services rendered by the Company's independent auditors in fiscal year 2005, including the related fees, were pre-approved by the Audit Committee.

Audit and Non-Audit Fees

The fees incurred by the Company for the professional services rendered by Deloitte & Touche LLP, the Company's independent auditor, during the two most recently completed fiscal years were as follows:

	Fiscal Year	
	2005	2004
(In thousands)		
Audit fees	$1,627	$1,367
Audit-related fees [a]	109	120
Tax fees [b]	25	114
All other fees	—	—
Total fees	$1,761	$1,601

(a) Principally audits of employee benefit plans and accounting consultation.

(b) Principally tax planning and tax compliance services.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Index to Consolidated Financial Statements, Financial Statement Schedules and Exhibits

(a) Documents filed as part of this report:

All other financial statements and schedules not listed in the preceding index are omitted because they are not required or are not applicable or because the information required to be set forth therein either was not material or is included in the consolidated financial statements or Notes thereto.

BIG LOTS, INC. AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Description	Beginning of Year	Charged to Cost and Expense	Charged to Other Accounts	Deductions	End of Year
(In thousands)					
Inventory Valuation Allowance					
Fiscal year ended January 28, 2006	$ 776	672	—	275	$ 1,173 [(a)]
Fiscal year ended January 29, 2005	$2,651	243	1,500 [(b)]	618	$ 776 [(a)]
Fiscal year ended January 31, 2004	$2,879	268	—	496	$ 2,651 [(c)]
Closed Store Liabilities					
Fiscal year ended January 28, 2006	$ —	43,600 [(d)]	—	23,638 [(e)]	$19,962 [(f)]

(a) Consists of markdowns of aged goods.

(b) Certain amounts were reclassified to other balance sheet accounts during the fiscal year ended January 29, 2005.

(c) Consists of reserve for merchandise returns and markdowns of aged goods.

(d) Includes charges for the write-down of property, inventory and deferred rent, severance and benefits, and contract termination cost.

(e) Includes non-cash reductions for the write-down of property, inventory, and deferred rent, and cash payments for severance and benefits and contract termination costs.

(f) Consists of the remaining liability for severance and benefits and contract termination costs related to closed stores.

(3) Exhibits. Exhibits marked with an asterisk (*) are filed herein. Copies of exhibits will be furnished upon written request and payment of the Company's reasonable expenses in furnishing the exhibits. Exhibits 10.1 through 10.33 are management contracts or compensatory plans or arrangements.

Exhibit No.	Document
2	Agreement of Merger (incorporated herein by reference to Exhibit 2 to the Company's Form 10-Q for the quarter ended May 5, 2001).
3.1	Amended Articles of Incorporation of the Company (incorporated herein by reference to Exhibit 3(a) to the Company's Form 10-Q for the quarter ended May 5, 2001).
3.2	Code of Regulations of the Company (incorporated herein by reference to Exhibit 3(b) to the Company's Form 10-Q for the quarter ended May 5, 2001).
4	Specimen Common Share Certificate (incorporated herein by reference to Exhibit 4(a) to the Company's Form 10-K for the year ended February 2, 2002).
10.1	Big Lots, Inc. 1996 Performance Incentive Plan (incorporated herein by reference to Exhibit 10 to the Company's Post-Effective Amendment No. 1 to Form S-8).
10.2	Amendment to the Big Lots, Inc. 1996 Performance Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated August 17, 2005).
10.3	Form of Non-Qualified Stock Option Grant Agreement under the Big Lots, Inc. 1996 Performance Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated September 9, 2004).
10.4	Form of Restricted Stock Award Agreement under the Big Lots, Inc. 1996 Performance Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated January 6, 2005).
10.5	Form of Restricted Stock Award Agreement under the Big Lots, Inc. 1996 Performance Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated July 11, 2005).
10.6	Big Lots 2005 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated May 17, 2005).
10.7	Form of Non-Qualified Stock Option Award Agreement under the Big Lots 2005 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K dated February 21, 2006).
10.8	Form of Restricted Stock Award Agreement under the Big Lots 2005 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K dated February 21, 2006).
10.9	Big Lots, Inc. Executive Stock Option and Stock Appreciation Rights Plan (incorporated herein by reference to Exhibit 10 to the Company's Post-Effective Amendment No. 3 to Form S-8).
10.10	Big Lots, Inc. Amended and Restated Director Stock Option Plan (incorporated herein by reference to Exhibit 10 to the Company's Post-Effective Amendment No. 1 to Form S-8).
10.11	First Amendment to Big Lots, Inc. Amended and Restated Director Stock Option Plan (incorporated herein by reference to Exhibit 10(d) to the Company's Form 10-Q for the quarter ended August 3, 2002).
10.12	Form of Option Award Agreement under the Big Lots, Inc. Amended and Restated Director Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated September 9, 2004).
10.13	The 1998 Big Lots, Inc. Key Associate Annual Incentive Compensation Plan (incorporated herein by reference to Exhibit 10(l) to the Company's Form 10-K for the year ended February 2, 2002).

Exhibit No.	Document
10.14	Big Lots Savings Plan (incorporated herein by reference to Exhibit 10.8 to the Company's Form 10-K for the year ended January 29, 2005).
10.15	Big Lots, Inc. Supplemental Savings Plan (incorporated herein by reference to Exhibit 10(c) to the Company's Form 10-K for the year ended January 31, 2004).
10.16	Big Lots Defined Benefit Pension Plan (incorporated herein by reference to Exhibit 10.10 to the Company's Form 10-K for the year ended January 29, 2005).
10.17	Big Lots, Inc. Supplemental Defined Benefit Pension Plan (incorporated herein by reference to Exhibit 10(u) to the Company's Form 10-K for the year ended January 31, 2004).
10.18	Big Lots Executive Benefit Plan (incorporated herein by reference to Exhibit 10(m) to the Company's Form 10-K for the year ended January 31, 2004).
10.19	Big Lots, Inc. Director Compensation Package (incorporated herein by reference to Exhibit 10 to the Company's Form 8-K dated January 27, 2005).
10.20	Employment Agreement with Steven S. Fishman (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated June 6, 2005).
10.21	First Amendment to Employment Agreement with Steven S. Fishman (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated February 21, 2006).
10.22	Employment Agreement with John C. Martin (incorporated herein by reference to Exhibit 10 to the Company's Form 10-Q for the quarter ended November 1, 2003).
10.23	Employment Agreement with Brad A. Waite (incorporated herein by reference to Exhibit 10(s) to the Company's Form 10-K for the year ended January 31, 2004).
10.24	Employment Agreement with Donald A. Mierzwa (incorporated herein by reference to Exhibit 10(r) to the Company's Form 10-K for the year ended January 31, 2004).
10.25	Employment Agreement with Charles W. Haubiel II (incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended April 30, 2005).
10.26	Employment Agreement with Joe R. Cooper (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended April 30, 2005).
10.27	Employment Agreement with Kent Larsson (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated August 17, 2005).
10.28	Employment Agreement with Lisa M. Bachmann (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated August 29, 2005).
10.29	Employment Agreement with Michael J. Potter (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated January 6, 2005).
10.30	First Amendment to Employment Agreement with Michael J. Potter (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated June 6, 2005).
10.31	Form of Executive Severance Agreement (incorporated herein by reference to Exhibit 10(r) to the Company's Form 10-K for the year ended January 30, 1999).
10.32	Form of Senior Executive Severance Agreement (incorporated herein by reference to Exhibit 10(s) to the Company's Form 10-K for the year ended January 30, 1999).
10.33	Form of Retention Package Memorandum (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated January 6, 2005).
10.34	Credit Agreement among Big Lots Stores, Inc., as borrower, the Guarantors named therein, and the Banks named therein (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated October 29, 2004).
10.35	First Amendment to Credit Agreement among Big Lots Stores, Inc., as borrower, the Guarantors named therein, and the Banks named therein (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated October 25, 2005).

Exhibit No.	Document
10.36	Security Agreement between Big Lots Stores, Inc. and Big Lots Capital, Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated October 29, 2004).
10.37	Stock Purchase Agreement between KB Acquisition Corporation and Consolidated Stores Corporation (incorporated herein by reference to Exhibit 2(a) to the Company's Form 10-Q for the quarter ended October 28, 2000).
21*	Subsidiaries.
23*	Consent of Deloitte & Touche LLP.
24.1	Power of Attorney for Sheldon M. Berman (incorporated herein by reference to Exhibit 24.1 to the Company's Form 10-K for the year ended January 29, 2005).
24.2	Power of Attorney for David T. Kollat (incorporated herein by reference to Exhibit 24.2 to the Company's Form 10-K for the year ended January 29, 2005).
24.3	Power of Attorney for Brenda J. Lauderback (incorporated herein by reference to Exhibit 24.3 to the Company's Form 10-K for the year ended January 29, 2005).
24.4	Power of Attorney for Philip E. Mallott (incorporated herein by reference to Exhibit 24.4 to the Company's Form 10-K for the year ended January 29, 2005).
24.5	Power of Attorney for Ned Mansour (incorporated herein by reference to Exhibit 24.5 to the Company's Form 10-K for the year ended January 29, 2005).
24.6	Power of Attorney for Russell Solt (incorporated herein by reference to Exhibit 24.7 to the Company's Form 10-K for the year ended January 29, 2005).
24.7	Power of Attorney for James R. Tener (incorporated herein by reference to Exhibit 24.8 to the Company's Form 10-K for the year ended January 29, 2005).
24.8	Power of Attorney for Dennis B. Tishkoff (incorporated herein by reference to Exhibit 24.9 to the Company's Form 10-K for the year ended January 29, 2005).
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 13th day of April 2006.

BIG LOTS, INC.

By: /s/ Steven S. Fishman

Steven S. Fishman
Chairman of the Board, Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 13th day of April 2006.

/s/ Steven S. Fishman

Steven S. Fishman
Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)

/s/ Joe R. Cooper

Joe R. Cooper
Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

/s/ Sheldon M. Berman*

Sheldon M. Berman
Director

/s/ Ned Mansour*

Ned Mansour
Director

/s/ David T. Kollat*

David T. Kollat
Director

/s/ Russell Solt*

Russell Solt
Director

/s/ Brenda J. Lauderback*

Brenda J. Lauderback
Director

/s/ James R. Tener*

James R. Tener
Director

/s/ Philip E. Mallott*

Philip E. Mallott
Director

/s/ Dennis B. Tishkoff*

Dennis B. Tishkoff
Director

* The above named Directors of the Registrant execute this report by Charles W. Haubiel II, their attorney-in-fact, pursuant to the powers of attorney executed by the above-named Directors and filed with the Securities and Exchange Commission, all in the capacities indicated and on the 13th day of April, 2006.

By: /s/ Charles W. Haubiel II

Charles W. Haubiel II
Attorney-in-Fact

SUBSIDIARIES

Name	Jurisdiction
Big Lots Stores, Inc.	OH
C.S. Ross Company	OH
BLSI Property, LLC	DE
Big Lots Capital, Inc.	OH
Durant DC, LLC	DE
CSC Distribution, Inc.	AL
Closeout Distribution, Inc.	PA
Consolidated Property Holdings, Inc.	NV
Midwestern Home Products, Inc.	DE
Midwestern Home Products Company, Ltd.	OH
Tool and Supply Company of New England, Inc.	DE
Sonoran LLC	DE
Sahara LLC	DE
Great Basin LLC	DE
Industrial Products of New England, Inc.	ME
SS Investments Corporation	DE
Mac Frugal's Bargains • Close-outs Inc.	DE
PNS Stores, Inc.	CA
West Coast Liquidators, Inc.	CA
Capital Retail Systems, Inc.	OH
Barn Acquisition Corporation	DE
Fashion Barn, Inc.	NY
Fashion Barn of New Jersey, Inc.	NJ
Fashion Barn of Florida, Inc.	FL
Fashion Barn of Indiana, Inc.	IN
Fashion Barn of Pennsylvania, Inc.	PA
Fashion Barn of Oklahoma, Inc.	OK
Fashion Barn of Texas, Inc.	TX
Fashion Barn of Ohio, Inc.	OH
Fashion Outlets Corp.	NY
Fashion Barn of Vermont, Inc.	VT
Fashion Barn of Virginia, Inc.	VA
Fashion Barn of South Carolina, Inc.	SC
Fashion Barn of North Carolina, Inc.	NC
Fashion Barn of West Virginia, Inc.	WV
Fashion Bonanza, Inc.	NY
Rogers Fashion Industries, Inc.	NY
Rogers Fashion Industries, Inc.	NJ
Saddle Brook Distributors, Inc.	NY
Saddle Brook Distributors, Inc.	NJ
DTS, Inc.	NY
DTS, Inc.	TN
Fashion Barn of Missouri, Inc.	MO
Fashion Barn, Inc.	MA
Fashion Barn of Georgia, Inc.	GA

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following documents of our reports dated April 13, 2006, relating to the consolidated financial statements and financial statement schedule of Big Lots, Inc. and subsidiaries and management's report on the effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10-K of Big Lots, Inc. for the year ended January 28, 2006.

1. Post-Effective Amendment No. 1 to Registration Statement No. 33-42502 on Form S-8 pertaining to Big Lots, Inc. Director Stock Option Plan;
2. Post-Effective Amendment No. 1 to Registration Statement No. 33-42692 on Form S-8 pertaining to Big Lots, Inc. Supplemental Savings Plan;
3. Post-Effective Amendment No. 3 to Registration Statement No. 33-6086 on Form S-8 pertaining to Big Lots, Inc. Executive Stock Option and Stock Appreciation Rights Plan;
4. Post-Effective Amendment No. 2 to Registration Statement No. 33-19309 on Form S-8 pertaining to Big Lots, Inc. Savings Plan; and
5. Post-Effective Amendment No. 1 to Registration Statement No. 333-32063 on Form S-8 pertaining to Big Lots, Inc. 1996 Performance Incentive Plan.

DELOITTE & TOUCHE LLP

Dayton, Ohio
April 13, 2006

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven S. Fishman, certify that:

1. I have reviewed this annual report on Form 10-K of Big Lots, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 13, 2006

By: /s/ Steven S. Fishman

Steven S. Fishman
Chairman of the Board, Chief Executive Officer and President

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joe R. Cooper, certify that:

1. I have reviewed this annual report on Form 10-K of Big Lots, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 13, 2006

By: /s/ Joe R. Cooper

Joe R. Cooper
Senior Vice President and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and accompanies the annual report on Form 10-K (the "Report") for the year ended January 28, 2006, of Big Lots, Inc. (the "Company"). I, Steven S. Fishman, Chairman of the Board, Chief Executive Officer and President of the Company, certify that:

(i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 13, 2006

By: /s/ Steven S. Fishman

Steven S. Fishman
Chairman of the Board, Chief Executive Officer and President

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and accompanies the annual report on Form 10-K (the "Report") for the year ended January 28, 2006, of Big Lots, Inc. (the "Company"). I, Joe R. Cooper, Senior Vice President and Chief Financial Officer of the Company, certify that:

(i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 13, 2006

By: /s/ Joe R. Cooper

Joe R. Cooper
Senior Vice President and
Chief Financial Officer

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notice of annual meeting

The Annual Meeting of Shareholders will be held at 9:00 a.m. EDT on Thursday, May 25, 2006, at the Big Lots, Inc. corporate office, 300 Phillipi Road, Columbus, Ohio. Whether or not you plan to attend, you are encouraged to return the proxy card which accompanies this report to ensure that your shares will be represented. In accordance with the accompanying proxy statement, shareholders who attend the meeting may withdraw their proxies and vote in person if they so desire.

ceo/cfo certifications

The most recent certifications by our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to our Form 10-K. We have also filed with the New York Stock Exchange the most recent Annual CEO Certification as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

company information

TRANSFER AGENT & REGISTRAR

National City Bank
1900 East Ninth Street
Cleveland, Ohio 44114

INVESTMENT INQUIRIES

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INDEPENDENT AUDITORS

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