

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) **August 22, 2003**

BIG LOTS, INC.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

1-8897
(Commission File Number)

06-1119097
(I.R.S. Employer Identification No.)

300 Phillipi Road, P.O. Box 28512, Columbus, Ohio
(Address of principal executive office)

43228-5311
(Zip Code)

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

Item 1.	Changes in Control of Registrant.	Not applicable
Item 2.	Acquisition or Disposition of Assets.	Not applicable
Item 3.	Bankruptcy or Receivership.	Not applicable
Item 4.	Changes in Registrant's Certifying Accountant.	Not applicable
Item 5.	Other Events and Regulation FD Disclosure.	Not applicable
Item 6.	Resignations of Registrant's Directors.	Not applicable
Item 7.	Financial Statements and Exhibits.	Not applicable
	(a) None required	
	(b) None required	
	(c) Exhibits	

Exhibit Number	Description
99.1	Press release, dated August 20, 2003, issued by Big Lots, Inc.
99.2	Transcript of Big Lots, Inc. second quarter conference call, dated August 20, 2003

Item 8.	Change in Fiscal Year.	Not applicable
Item 9.	Regulation FD Disclosure.	Not applicable
Item 10.	Amendments to the Registrant's Code of Ethics, or Waiver of a Provision of the Code of Ethics.	Not applicable
Item 11.	Temporary Suspension of Trading Under Registrant's Employee Benefit Plans.	Not applicable
Item 12.	Results of Operations and Financial Condition.	Not applicable

On August 20, 2003, Big Lots, Inc. issued a press release and conducted a conference call setting forth the Company's results of operations for the year-to-date and quarter ended August 2, 2003, affirming its earnings guidance for its third and fourth quarters of fiscal year 2003, and disclosing the expectation to settle class action lawsuits.

The press release and conference call included the following non-GAAP financial measures (as defined by Regulation G): (i) non-GAAP adjusted net income (loss) and (ii) non-GAAP adjusted net income (loss) per share. These non-GAAP financial measures exclude from the directly comparable GAAP measures a one-time after-tax charge related to the settlement of class action lawsuits. As required by Regulation G, the press release contains a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures. The Company's management believes that the disclosure of these non-GAAP financial measures provides useful information to investors because the non-GAAP financial measures present an alternative method for measuring the Company's operating performance excluding non-recurring items that would normally be included in the most directly comparable GAAP financial measure and because management believes that the one-time after-tax charge is not indicative of the Company's core operating results and the financial condition of the Company's business. The Company has not incurred similar settlement costs of this magnitude in the past and does not anticipate being required to again in the future.

The Company's management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating the Company's operating performance and as a measure of performance for incentive compensation purposes. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures as reported by the Company may not be comparable to similarly titled items reported by other companies.

A copy of the Company's press release is attached to this Current Report on Form 8-K as Exhibit 99.1, and a copy of the transcript of the conference call is attached to this Current Report on Form 8-K as Exhibit 99.2. The information in Exhibits 99.1 and 99.2 is being furnished, not filed, under Item 12 of this Current Report on Form 8-K. By filing this Current Report on Form 8-K and furnishing this information, the Company is making no admission as to the materiality of any information in this Current Report, including the Exhibits.

SIGNATURE

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

BIG LOTS, INC.

By: /s/ Jeffrey G. Naylor

Jeffrey G. Naylor
Senior Vice President &
Chief Financial Officer

Date: August 22, 2003

Contact: Joe R. Cooper
Vice President Treasurer
614-278-6622

**BIG LOTS REPORTS SECOND QUARTER 2003 RESULTS;
AFFIRMS THIRD AND FOURTH QUARTER GUIDANCE**

COMPANY EXPECTS TO SETTLE CLASS ACTION LAWSUITS

Columbus, Ohio – August 20, 2003 – Big Lots, Inc. (NYSE: BLI) today reported a second quarter net loss of \$8.0 million, or \$0.07 per share, compared to net income of \$3.2 million in the second quarter of fiscal 2002, or \$0.03 per share. Excluding a one-time after-tax charge of \$6.4 million related to the settlement of class action lawsuits discussed in more detail later in this release, the Company's second quarter of fiscal 2003 net loss was \$1.6 million, or \$0.01 per share. Year to date net income was \$2.2 million, or \$0.02 per share, compared to net income of \$15.4 million, or \$0.13 per share, during the same twenty-six week period of fiscal 2002. Excluding the one-time charge, year to date fiscal 2003 net income was \$8.6 million, or \$0.07 per share.

For the thirteen-week quarter ended August 2, 2003, the Company reported net sales of \$949.3 million, an 8.0% increase compared to net sales of \$879.3 million for the second quarter of fiscal 2002. Comparable store sales for stores open two years at the beginning of the fiscal year were up 3.4% for the quarter behind a 2.3% increase in customer transactions and a 1.1% increase in the value of the average basket. The planned elimination of one advertising circular during May reduced comparable store sales for the quarter by an estimated 1%. On a year to date basis, net sales increased 6.4% to \$1,897.7 million compared to \$1,783.4 million in fiscal 2002. Comparable store sales increased 2.2% for the year to date period with customer transactions increasing 1.2% and the value of the average basket increasing 1.0%.

Commenting on the results, Michael J. Potter, Chairman and Chief Executive Officer, stated, "We are pleased with sales results for the quarter as comps increased 3.4% on top of last year's record 12.4% increase. As expected, customer counts accelerated as we moved through the quarter and finished up 2.3%. This improving trend is attributable to the positive and compounding impact of our key initiatives, better productivity from our advertising circulars, and strong customer response to branded closeout merchandise in key categories such as consumables and hardlines. Sales momentum has continued into August as we have delivered on plan sales through the first two weeks with the majority of the comp coming from increased customer transactions."

Mr. Potter continued, "Earnings for the second quarter were at the high end of our expectations, excluding the impact of the one-time charge. As expected, the gross margin rate for the quarter compared to last year was down 60 basis points to 41.3%, principally due to markdowns related to the promotion of spring decorative merchandise. As communicated in our April sales release, harsh winter weather and late deliveries due to the west coast port dispute resulted in below plan sales of this

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seasonal product in the first quarter. Consequently, we decided to aggressively promote this category in the second quarter to begin the second half of the year with a fresh seasonal inventory assortment. Expenses continue to be on plan and well managed. Consistent with first quarter results and second quarter guidance, expenses as a percent of sales increased slightly in the first half of this year as we invested in such key initiatives as national advertising, store remodels, and expansion of our furniture business. The second half of 2003 guidance calls for favorable expense leverage as the level of investment spending compared to last year slows and the expected sales benefit builds.”

Mr. Potter added, “We continue to focus on improving the strength of the balance sheet and reducing net debt, which was down \$48 million compared to the prior year. Inventories were \$820 million as of the end of the quarter, down 2% on a per store basis. We continue to be disciplined in the management of our inventories, driving improved inventory turns and maintaining the flexibility in our open-to-buy to take advantage of great closeout opportunities.”

Commenting on the Company’s key business initiatives, Mr. Potter stated, “Year to date, our initiatives have delivered planned levels of sales and earnings and are on track to meet our full year guidance. In April of this year, we launched our first ever national television advertising campaign. While still early in the year, the incremental sales and customer count increases are slightly ahead of plan, and driving sales growth in markets such as Chicago, Dallas, Miami, and San Francisco. Through the first two quarters, sales and earnings from our furniture expansion program are on plan as we have opened 87 new furniture departments within our closeout stores and expanded the square footage allocated to furniture in another 183 existing stores. The construction of our fifth distribution center in Durant, OK is proceeding well and we are on schedule to begin shipping merchandise in the first quarter of 2004. And with the re-grand opening of 33 stores last week, we have now completed our 2003 program with the remodel of 211 stores this year. While the incremental sales lifts in markets such as Atlanta and Pittsburgh have met our expectations, the total sales impact of this year’s program has slightly missed our plan, principally due to lost sales during the period the store is being remodeled. With this year’s remodel phase completed as we head into the fall selling season, the stores look great, and customer response has been positive.”

Mr. Potter concluded, “We are encouraged by sales trends as we begin the third quarter. The compounding nature of our business initiatives, our strong branded offering in need-based consumables, and the shift in our seasonal assortment toward more basic items leaves us well positioned to drive meaningful sales and earnings improvement in the second half of this year. Our team remains focused on executing our initiatives to expand our customer base and drive sustainable long-term business growth.”

The Company also announced today that it has reached a preliminary agreement to settle two California class action lawsuits relating to the calculation of earned overtime wages for certain of the Company’s former and current store managers and assistant store managers in that state. Each of the lawsuits was filed by plaintiffs who are current or former store managers or assistant store managers on behalf of themselves and other similarly situated store managers and assistant store managers. The lawsuits alleged that the Company improperly classified such employees as exempt under California’s wage and hour laws. The recent settlement, which addresses claims dating back to 1996 and is still subject to court approval, fully resolves all claims brought by the plaintiffs in these California lawsuits. Big Lots will make a cash settlement payment of \$10 million to cover claims by eligible class members, attorneys’ fees and costs of the class members, costs to a third-party administrator and

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applicable employer payroll taxes. The Company does not expect the settlement to have a material impact on its cost structure going forward.

Commenting on the settlement, Charles W. Haubiel II, Vice President, General Counsel and Corporate Secretary stated, "While we deny all liability in these cases, the Company has agreed to the settlement in order to resolve all of the Plaintiffs' claims without engaging in protracted litigation. Big Lots is one of numerous companies that have faced this type of class action lawsuit in California in recent years. Given the unique aspects of California wage and hour laws, which differ significantly from Federal and other state laws, we believe this settlement was the best solution for Big Lots."

While the matter is still subject to final court approval, the Company believes the liability is both probable and can be reasonably estimated. Accordingly, a one-time after-tax charge of \$6.4 million was recorded in the second quarter of 2003, reducing second quarter earnings per share by \$0.06.

Additionally, the Company announced today it has reached a preliminary agreement to settle a national class action lawsuit relating to certain advertising practices of KB Toys. The KB Toy Division was sold by the Company on December 7, 2000. The lawsuit alleged that KB Toys improperly used comparative pricing in its advertisements. The settlement, which is still subject to court approval, calls for the payment of certain attorneys' fees and administrative expenses, discounts to be provided to KB customers and a potential toy donation to national charities. The total value of the settlement as preliminarily approved by the court is estimated to be approximately \$4.0 million. It remains unclear as to what portion of the costs associated with the settlement, if any, will be the responsibility of the Company. However, in the event the Company is found to be ultimately responsible for any or all of the settlement amount, the cost will be recorded by the Company as a charge to discontinued operations.

The Company affirmed its third quarter guidance of a loss of \$0.03 per share from continuing operations to earnings per share from continuing operations of \$0.01. Comparable store sales in the third quarter are expected to increase in the mid-single digit range with total sales increasing in the high-single digit range. Comparable store sales are expected to increase in the mid-single digit range in each of the months of August, September, and October.

The Company also affirmed its fourth quarter earnings and comparable store sales estimates. Fourth quarter earnings per share estimates from continuing operations of \$0.64 to \$0.69 are based on a mid-single digit comparable store sales increase. The fourth quarter guidance reflects earnings per share growth of 12%-21% over the fourth quarter of fiscal 2002.

Finally, the Company announced it has amended its revolving credit agreement with unanimous approval from its bank group. The amendment not only extends the maturity one year to May, 2005, it also reduces the size of the facility from \$358.6 million to \$300 million to better match the facility size with the liquidity needs of the Company and minimize facility fees.

Big Lots, Inc. will host a conference call at 8:30 a.m. EDT today, to discuss the Company's financial results. The Company invites you to listen to the live webcast of the conference call. The Company is hosting the live webcast at www.biglots.com.

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If you are unable to join the live webcast, an archive of the call will be available at www.biglots.com in the Investor Relations section of our Website two hours after the call ends and will remain available through midnight on Wednesday, September 3. A replay of the call will be available beginning August 20 at 12:00 noon (EDT) through September 3 at midnight by dialing: (800) 475-6701 (United States) or (320) 365-3844 (International). The access number is 695274.

Big Lots, Inc. (NYSE: BLI) is the nation's largest broadline closeout retailer. The Company operates a total of 1,404 closeout stores in 45 states operating as **BIG LOTS** and **BIG LOTS FURNITURE**. Wholesale operations are conducted through **BIG LOTS WHOLESALE, CONSOLIDATED INTERNATIONAL, WISCONSIN TOY** and with purchasing at www.biglotswholesale.com. The Company's website is located at www.biglots.com. Investors can monitor the progress of company sales weekly by calling (614) 870-2095.

Cautionary Statement for Purposes of "Safe Harbor" Provisions of the Securities Litigation Reform Act of 1995

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statement. The Company wishes to take advantage of the "safe harbor" provisions of the Act.

This release, as well as other verbal or written statements or reports made by or on the behalf of the Company, may contain or may incorporate material by reference which includes forward-looking statements within the meaning of the Act. Statements, other than those based on historical facts, which address activities, events, or developments that the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), business strategy, expansion and growth of the Company's business and operations, and other similar matters are forward-looking statements, which are based upon a number of assumptions concerning future conditions that may ultimately prove to be inaccurate. The words "believe," "anticipate," "project," "plan," "expect," "estimate," "objective," "forecast," "goal," "intend," "will likely result," or "will continue" and similar expressions generally identify forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions within the bounds of its knowledge of its business, actual events and results may materially differ from anticipated results described in such statement.

The Company's ability to achieve such results is subject to certain risks and uncertainties, any one, or a combination, of which could materially affect the results of the Company's operations. These factors include: sourcing and purchasing merchandise; the cost of the merchandise; economic and weather conditions which affect buying patterns of the Company's customers; changes in consumer spending and consumer debt levels; inflation; the Company's ability to anticipate buying patterns and implement appropriate inventory strategies; continued availability of capital and financing; competitive pressures and pricing pressures; the Company's ability to comply with the terms of its credit facilities (or obtain waivers for non-compliance); interest rate fluctuations; transportation and distribution delays or interruptions, including, but not limited to, the impact of the recent management

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lockout of the West Coast dockworkers and any ongoing work slowdown on the economy and on the Company's ability to receive inventory; fuel price fluctuations; interruptions in suppliers' businesses; costs and potential problems and interruptions associated with implementation of new or upgraded systems and technology; a deterioration in general economic conditions caused by acts of war or terrorism; delays associated with constructing, opening and operating new stores; and other risks described from time to time in the Company's filings with the Securities and Exchange Commission, in its press releases, and in other communications.

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 the Company will be realized or that they will have the expected effects on the Company or its business or operations.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date thereof. The Company undertakes no obligation to publicly release any revisions to the forward-looking statements contained in this report, or to update them to reflect events or circumstances occurring after the date of this report, or to reflect the occurrence of unanticipated events. Readers are advised, however, to consult any further disclosures the Company may make on related subjects in its Forms 10-Q, 8-K and 10-K filed with the Securities and Exchange Commission.

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BIG LOTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	AUGUST 2 2003	AUGUST 3 2002
	(Unaudited)	(Unaudited)
ASSETS		
Current Assets:		
Cash	\$ 25,175	\$ 23,966
Cash equivalents	58,009	10,500
Inventories	819,902	804,370
Deferred income taxes	65,194	85,492
Other current assets	85,703	61,553
	<u>1,053,983</u>	<u>985,881</u>
Property and equipment — net	576,831	520,091
Deferred income taxes	21,889	23,395
Other assets	21,688	26,214
	<u>\$1,674,391</u>	<u>\$1,555,581</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 303,374	\$ 248,123
Accrued liabilities	130,422	138,002
	<u>433,796</u>	<u>386,125</u>
Long-term obligations	204,000	204,000
Other liabilities	1,095	1,271
Shareholders' equity	1,035,500	964,185
	<u>\$1,674,391</u>	<u>\$1,555,581</u>

BIG LOTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	13 WEEKS ENDED		13 WEEKS ENDED	
	AUGUST 2		AUGUST 3	
	2003	%	2002	%
	(Unaudited)		(Unaudited)	
Net sales	\$949,275	100.0	\$879,255	100.0
Gross margin	391,641	41.3	368,262	41.9
Selling and administrative expenses	401,179	42.3	358,054	40.7
Operating profit (loss)	(9,538)	(1.0)	10,208	1.2
Interest expense	3,906	0.4	5,139	0.6
Interest income	(272)	(0.0)	(250)	(0.0)
Income (loss) from operations before income taxes	(13,172)	(1.4)	5,319	0.6
Income tax expense (benefit)	(5,203)	(0.5)	2,101	0.2
Net income (loss)	\$ (7,969)	(0.8)	\$ 3,218	0.4
Income (loss) per common share — basic	\$ (0.07)		\$ 0.03	
Weighted average common shares outstanding	116,754		116,019	
Income (loss) per common share — diluted	\$ (0.07)		\$ 0.03	
Weighted average common and common equivalent shares outstanding	117,299		117,466	

BIG LOTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	26 WEEKS ENDED		26 WEEKS ENDED	
	AUGUST 2		AUGUST 3	
	2003	%	2002	%
	(Unaudited)		(Unaudited)	
Net sales	\$1,897,657	100.0	\$1,783,396	100.0
Gross margin	789,753	41.6	746,764	41.9
Selling and administrative expenses	778,097	41.0	711,547	39.9
Operating profit (loss)	11,656	0.6	35,217	2.0
Interest expense	8,711	0.5	10,203	0.6
Interest income	(731)	(0.0)	(481)	(0.0)
Income (loss) from operations before income taxes	3,676	0.2	25,495	1.4
Income tax expense (benefit)	1,452	0.1	10,070	0.6
Net income (loss)	\$ 2,224	0.1	\$ 15,425	0.9
Income (loss) per common share — basic	\$ 0.02		\$ 0.13	
Weighted average common shares outstanding	116,616		115,597	
Income (loss) per common share — diluted	\$ 0.02		\$ 0.13	
Weighted average common and common equivalent shares outstanding	116,791		116,481	

Schedule Provided for Informational Purposes Only

BIG LOTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	13 WEEKS ENDED			13 WEEKS ENDED
	AUGUST 2			AUGUST 3
	2003			2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	As Reported	Litigation Charge	Prior to Litigation Charge	
Net sales	\$949,275	\$ —	\$949,275	\$879,255
Gross margin	391,641	—	391,641	368,262
Selling and administrative expenses	401,179	10,500	390,679	358,054
Operating profit (loss)	(9,538)	(10,500)	962	10,208
Interest expense	3,906	—	3,906	5,139
Interest income	(272)	—	(272)	(250)
Income (loss) from operations before income taxes	(13,172)	(10,500)	(2,672)	5,319
Income tax expense (benefit)	(5,203)	(4,147)	(1,056)	2,101
Net income (loss)	\$ (7,969)	\$ (6,353)	\$ (1,616)	\$ 3,218
Income (loss) per common share — basic	\$ (0.07)		\$ (0.01)	\$ 0.03
Weighted average common shares outstanding	116,754		116,754	116,019
Income (loss) per common share — diluted	\$ (0.07)		\$ (0.01)	\$ 0.03
Weighted average common and common equivalent shares outstanding	117,299		117,299	117,466

Schedule Provided for Informational Purposes Only

BIG LOTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	26 WEEKS ENDED			26 WEEKS ENDED
	AUGUST 2			AUGUST 3
	2003			2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	As Reported	Litigation Charge	Prior to Litigation Charge	
Net sales	\$1,897,657	\$ —	\$1,897,657	\$1,783,396
Gross margin	789,753	—	789,753	746,764
Selling and administrative expenses	778,097	10,500	767,597	711,547
Operating profit (loss)	11,656	(10,500)	22,156	35,217
Interest expense	8,711	—	8,711	10,203
Interest income	(731)	—	(731)	(481)
Income (loss) from operations before income taxes	3,676	(10,500)	14,176	25,495
Income tax expense (benefit)	1,452	(4,147)	5,599	10,070
Net income (loss)	\$ 2,224	\$ (6,353)	\$ 8,577	\$ 15,425
Income (loss) per common share — basic	\$ 0.02		\$ 0.07	\$ 0.13
Weighted average common shares outstanding	116,616		116,616	115,597
Income (loss) per common share — diluted	\$ 0.02		\$ 0.07	\$ 0.13
Weighted average common and common equivalent shares outstanding	116,791		116,791	116,481

**FINAL TRANSCRIPT
BIG LOTS, INC. Q2 2003
EARNINGS CONFERENCE CALL
AUGUST 20, 2003
8:30AM ET**

PRESENTATION

Operator

Ladies and gentlemen, good morning, thank you very much for standing by and welcome to the Big Lots second quarter 2003 conference call. At this time all lines are in a listen-only mode, later we will conduct the question and answer session. Instructions will be given at that time. If you should require assistance during the call please press star and then zero and an operator will assist you. As a reminder this conference call is being recorded. We'll now turn the conference call over to your host, CEO Mr. Mike Potter. Please go ahead, sir.

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

Thanks, Barb, and thank you everyone for joining us for our second quarter conference call. With me today are Albert Bell, our Vice Chairman and Chief Administrative Officer, and Jeff Naylor, Senior Vice President and Chief Financial Officer. Also with me are Joe Cooper, Vice President, Treasurer and Head of Investor Relations as well as Chuck Haubiel, Vice President and General Counsel. I'd like to remind you that any forward-looking statements we make on today's call involve risks and uncertainties and are subject to our Safe Harbor provisions as stated in our press release and our SEC filings and that actual results can differ materially from those described in our forward-looking statements. We want to accomplish a number of things today, after some opening remarks, Jeff will cover the second quarter financial results. Then Al will update you on our progress we've made on our key initiatives. After a few closing comments, we'll be glad to answer your questions. We've accomplished a great deal since our last conference call. We delivered solid results in the second quarter, particularly on the top line, as we consistently delivered on our sales plan throughout the quarter. It's important to remind you we delivered our 3.4% comp despite the elimination of one advertisement circular in the month of May, which we believe impacted the quarterly comp by approximately 1%. And we believe we've demonstrated our ability to comp on comp by delivering the 3.4% increase on top of last year's record 12.4% increase. Clearly, we're encouraged with the trend of the business right now. While the basket was soft the majority of the second quarter, the momentum behind customer transactions improved each month ending the quarter up 2.3%. With second quarter's result, we have now grown this key metric year-over-year in six of the last seven quarters. In fact, the only quarter without positive customer count growth was the fourth quarter of last year, which as you know was negatively impacted by the retail calendar shift and six fewer shopping days between Thanksgiving and Christmas. And the momentum is continuing in August as sales are on plan for a mid single digit comp through the first two weeks of the month with a majority of the sales comp coming from growth in customer transactions. From a merchandising perspective,

consumables, hard lines, furniture and our promotional spring decorative category drove the quarter's comp. Particularly impressive within consumables was the performance of our food category which posted double digit comps for the quarter on top of double digits last year. Our promotionally driven sell-through of the spring decorative merchandise met expectations, helped create instore excitement and offered significant bargains to our customers compared to competitive offerings. Additionally our merchandising team did a terrific job sourcing fresh and exciting product for our advertising circulars in the second quarter with sales of ad goods per average store up over 10% compared to last year. Finally as you saw in our release this morning, we announced the preliminary settlement of two class action matters, including a California wage and hour litigation that has plagued so many retailers over the past few years. Obviously these settlements impact comparisons to consensus estimates as well as prior year. However when you adjust for the one-time after tax charge of 6.4 million, we had a net loss for the quarter of 1.6 million or 1 cent per share, ahead of Thompson's first call estimate of a net loss per share of 2 cents. So before Jeff takes you through the P&L, let me briefly discuss these settlements. The California wage and hour class actions which we highlighted in our first quarter 10-Q were settled in a recently concluded mediation. Given the unique aspects of California wage and hour laws, which differ significantly from federal and other state laws, we believe it's in the company's best interest to settle these actions. While the matter is still subject to court approval, we accrued the settlement liability because we believe the liability is both probable and can be reasonably estimated and under the applicable accounting rules must be recorded. The one other point about the California wage and hour matter, is, and this is based on a detail review of our payroll model, we do not expect the settlement to have a material impact on our cost structure or earnings going forward. We also announced this morning that we reached preliminary agreement to settle a national class action lawsuit relating to certain advertising practices of KB Toys, which we sold in December of 2000. The lawsuit alleged that KB Toys improperly used comparative pricing in its advertisements. Although the total value of the settlement as drafted is estimated to be approximately 4 million, it remains unclear as to what portion of the costs associated with the settlement, if any, will be the responsibility of the company. Therefore since we can't reliably estimate the amount of the liability in this case, we cannot record the charge under the applicable accounting rules. However, in the event the company is found to be ultimately responsible for any or all of the settlement amount, the costs will be recorded by the company as a charge to discontinued operations, in the period in which the amount of the liability becomes known. Now let me turn it over to Jeff who's going to cover our financial results.

Jeffrey Naylor - *Big Lots, Inc. - Senior Vice President & Chief Financial Officer*

Thanks, Mike and good morning everyone. What I'll do today similar to past calls is recap the results for the quarter, provide some commentary on the P&L, and then speak to the balance sheet and cash flow. You've all had a chance to see our press release today, and in it we presented our financials both on a reported basis, which includes the one time settlement charge, and we've also broken it out for you on a pro forma basis which excludes this charge. Since the settlement is not going to have a material impact on the operating model going forward, as Mike just mentioned, I'm going to speak to the pro forma results today as we believe they better reflect the underlying operating performance and the trend in the company's results. So as you can see from the press release, and as Mike mentioned we reported a second quarter net loss per share of a penny, and that's again excluding the one-time charge. That net loss of a penny is at the high end of guidance, you'll recall that our guidance was flat to a net loss of 4 cents per share for the quarter. The net loss of a penny was also above the first call consensus estimates which called for net loss per share of 2 cents. Operating income was a million dollars for the quarter that compares with \$10.2 million in the second quarter of last year. And the net after-tax loss for the quarter was \$1.6 million, and that would compare to net after tax income of \$3.2 million last year.

Let me turn to sales and make a few comments there. Sales for the second quarter as you can see from the P&L were \$949.3 million, that's up 8% over last year. And that sales growth was driven by a 3.4% comp store sales increase as well as the net addition year-over-year of 47 stores. Both our overall 8% growth rate and the 3.4% comp store sales increase were in line with our guidance that we put out at the beginning of the quarter. Taking a closer look at each of the months, May's reported comp was 0.3%, and as Mike noted that was impacted by the elimination of one ad circular which had roughly a 3-point impact on the comp. So excluding the ad circular, May comp would have been 3% but with the impact of the ad circular it was .3%. June's comp was 5%, that was our strongest comp of the quarter and we benefited from a very strong July 4th ad as well as the early promotion of our spring decorative merchandise. Finally, July comps up 4.5% and we had the strongest customer count increase of the quarter in July, with customer counts up 2.9%. I think the key point here is that the business, our business clearly accelerated as we moved from Q1 into the second quarter, and the business built during the quarter, particularly the customer counts. Al's going to cover it a little further in a second but we're very encouraged that sales growth is accelerating as we planned and it's being driven by the investments we've made in our business initiatives. And finally we're also encouraged that the growth is primarily in customers. I think many of you noted frankly the basket is still relatively soft as we look at that trend as it's emerged over the last couple of years. So we remain very encouraged by the growth in customers and the impact the initiatives are having on the business. And from a sales standpoint performing very much as we had planned.

Let me now turn to gross margin. As we noted in our press release, the gross margin rate for the quarter was 41.3%, that's down 60 basis points compared to last year. And that decline was

principally attributable to the markdowns that were related to the promotion of our spring decorative merchandise. And that margin rate was also in line with the revised guidance we came out with back in April. As we communicated in the April sales release, the very harsh and difficult winter weather combined with the late delivery of product due to the West Coast port dispute, resulted in below planned sales in the decorative garden category in the first quarter and it created a need to aggressively promote this category in the second quarter. I think it's important to note here that our strategy worked, we're exiting the second quarter in great shape from an inventory standpoint with seasonal inventories fresh and well-positioned and ready for the fall selling season. Turning to G&A, excluding the class action settlement charge expenses were right on plan in terms of dollars and the SG&A rate was 41.2%* for the quarter. As we kind of look at the elements we had improving store payroll and supply chain productivity, helped us offset some pressures that we, like most retailers, are experiencing in health insurance and utility costs. The second quarter G&A rate of 41.2%* was also in line with our guidance of 41.0 to 41.4%. And that's up 50 basis points the last year again, which is in line with our plan. As we communicated in our guidance, expenses, SG&A were expected to de-lever in the second quarter, given our investments in national television advertising, store remodels and the investments made to expand our furniture business. You'll recall that when we laid out 2003 guidance we projected a two-cent negative impact in second quarter from the investment, the initiative spending which was exactly what we experienced. We also told you at the time that we would expect the initiatives to be accretive by 1 cent in the third quarter and by 4 cents in the fourth quarter and we still remain confident in those estimates. So accordingly, the G&A guidance for the second half of 2003 calls for significant expense leverage as the level of the investment spending compared to last year slows and we see the sales benefit from the investments' initiatives continue to accelerate. Interest expense was \$3.9 million for the quarter, that's on plan and it's down to last year due principally to the capitalization of interest related to the construction of our Durant, Oklahoma distribution center. And one other note, the income tax rate for the quarter was 39.5 %, which is unchanged from the prior year. Turning to the balance sheet, we continue to focus on aggressive balance sheet management, and remain very focused on maximizing the cash generating capability of the business. If you look at the numbers on the balance sheet, the net debt was \$146 million, that's down \$48 million compared to last year. We ended the second quarter with invested cash of 58 million, and no outstanding borrowings on our bank facility. In fact, if you look at it, we haven't drawn on a bank facility in over eight months and we don't anticipate borrowing on the facility until September. As we also described in the press release this morning we have amended our revolving credit facility so we've amended the bank facility, that received unanimous approval of our bank group. Let me talk to that for a second. The amendment does a couple of things, one is that it extends the maturity one year from May 2004 to May 2005. So what that does is it aligns our facility with the revolver with the maturity of the major portion of the \$204 million in senior notes. Both of those are going to mature in May 2005. The other thing we did is we reduced the facility size from 359 million to 300 million, and we think that will better match the size of the facility and what we have to pay for the facility with the liquidity needs of the company. You may recall that our maximum draw on this facility last year was under \$100 million. And we expect this year frankly to be less than that. So at \$300 million facility is slightly more than three times our borrowing needs and we remain very comfortable with that. So the other piece in terms of aligning the facility with the notes and having both expire in May 2005, we view that as an opportunity really over the next 12 to 18 months, it gives us the opportunity to evaluate the level of debt that we would like to carry go forward, give us the opportunity to evaluate refinancing alternatives and I think it gives us an opportunity to evaluate the best uses for our free cash flow when we get to that point. In terms of other balance sheet items, capital spending was \$40 million for the quarter, that's up 10 million over the second quarter of last year, and capital spending was \$88 million year to date, that's up \$41 million compared to last year and that increase in the level of capital spending is in line with plans and the increase year-over-year is principally due to the construction of our fifth distribution center in Durant, Oklahoma. Depreciation expense for the quarter was 22 million, and it was \$43 million for the year to date period. And overall year to date cash flow reflects a net-out flow of \$84 million, with positive cash flow from operations of 2 million, more than offset by the year to date capital spending. This is in line with our plan. And overall, I would say we remain very comfortable with our guidance that we put out at the beginning of the year that calls for the business to generate 20 to \$40 million of cash this year, although we would expect the end result there to be a little closer to the low end of the range due to the impact of the legal settlements. One other comment I'll make, inventory and supply chain management continues to be a focus of our business, in an effort to maintain appropriate inventory levels, and remain very disciplined in the way we manage inventory while at the same time maximizing our sales and our inventory turns. We ended the second quarter with total inventory of \$820 million, that's down 2% on a per-store basis, which was slightly below or slightly favorable to our guidance. We continue to have a lot of flexibility in our open to buy and we're comfortable with our inventory position and mix as inventory levels in growth areas such as consumables and furniture are up to last year. Seasonal inventories are down to last year and are going to flow closer to the season then in the past. Apparel inventory is also down to last year, as hanging apparel is now carried in just over half of our stores. I'll now turn it over to Al who will update you on our 2003 strategic initiatives.

* 41.2% is a non-GAAP financial measure of selling and administrative expenses as a percentage of net sales excluding a one-time litigation charge related to the settlement of class action lawsuits (as detailed in the informational schedule attached to the Company's August 20, 2003 earnings press release) for the quarter ended August 2, 2003. As required by Regulation G, the most directly comparable GAAP measure of selling and administrative expenses as a percentage of net sales (including the one-time litigation charge related to the settlement of class action lawsuits) is 42.3% for the quarter ended August 2, 2003.

Albert J Bell - Big Lots, Inc. - Vice Chairman & Chief Administrative Officer

Thanks, Jeff. As we mentioned in our July sales release earlier this month, we continue to be pleased with the progress of our key business initiatives and their impact on sales and customer counts. So what I would like to do now is provide some additional detail

behind each of these initiatives. As many of you are aware, we launched our first ever national television advertising campaign in early April. Now all 1404 of our stores have TV advertising helping to build the Big Lots brand and drive new customers to our stores to experience the fun and savings of close-out shopping. This means that for the first time in the company's history, such key markets as Boston, Chicago, Dallas, Houston, Miami, New York City and San Francisco are benefiting from consistent television exposure for the entire year. To further illustrate the power of this program, last week's television ads impacted the entire fleet of stores. So last year at this time, only 580 of our stores were supported with TV advertising. So obviously it's a significant change. I'm pleased to share with you that our estimate of the incremental sales in customer impact is actually tracking slightly ahead of plan through July. Based on our experience over the last eight years, the momentum of television advertising has a compounding effect as we move through the year. So in summary, while the incremental advertising spend in the first half of the year created, as planned, some level of SG&A de-leverage, we are optimistic about the results and expect that the program will deliver incremental comps and be accretive to earnings per share for the year. Now from a new store perspective, we added 12 net new stores for the quarter and 24 net new stores year to date. At the end of the second quarter, we are operating 1,404 stores including 44 freestanding furniture stores. We continue to be pleased with the quality of our store openings. They are generally higher than company average and sales, in square footage and typically include a furniture department. Speaking of our furniture business, we outlined for you earlier this year an aggressive growth plan for furniture in 2003. During the first six months of the year, we have added a net of 87 new furniture departments, 31 of which are in new stores and 56 of which were added in existing stores by expanding the store or eliminating hanging apparel. Additionally, on a year to date basis we allocated additional square footage to 183 furniture departments in existing stores during the quarter by eliminating hanging apparel in those stores. The incremental sales lift from these activities are on plan, and will also continue to build momentum during the second half of 2003. Next, with the re-grand opening of 33 stores in Lexington and Pittsburgh last week, our store remodel program for the year is complete. For the year, we remodeled 211 stores with 33 in the third quarter, 120 in the second quarter, and 58 stores in the first quarter. Key markets such as Atlanta and Pittsburgh have responded very well. Overall to date, incremental sales from this year's remodel program have slightly missed our expectations, principally due to lost sales during the period the store is being remodeled. As you may remember, this year's remodel program is much more extensive than the past two years and included updates to the physical plant, a new fixture program, and the creation of a new store layout to create improved category adjacencies. This involved moving a number of gondolas and relocating merchandise categories throughout the store. As a result, this extensive fixture and inventory movement during the remodel process caused some business interruption. Of course we're not satisfied with this impact on sales and we are working hard to improve our process to minimize or eliminate these lost sales in future remodels. In fact, the extent of lost sales has improved throughout the year as we have taken valuable learning's from early phases and improved the process with recent phases. Now with this year's remodel phase completed, as we head into the fall selling season, stores look great and the customer response has been positive. Construction of our fifth distribution center is right on schedule. As we have said, this DC will be located in Durant, Oklahoma, will cost about \$70 million and will be funded out of cash flow from operations. The DC is scheduled to begin shipping in the first quarter of 2004. With the addition of this facility, we estimate our distribution center infrastructure can support up to 1750 stores. And we continue to focus on our supply chain. Success in this area is dependent upon consistent, accurate execution. For us, it's not about taking one magic step and then your merchandise will flow efficiently and effectively, it's about building a strong team, focusing on the details, and establishing effective processes. We significantly added to our team last year and continue to add strength in this area as we implement the processes to ensure we more consistently have the right merchandise in the right store at the right time. So with half of the year completed, performance to date across these key initiatives is in the aggregate in line with our expectations. From an investment standpoint, we are right on budget. And most importantly, we can measure and see the impact of these programs reflected in the sales results. Sales have been on plan or slightly ahead of plan each week, since the beginning of April when we began to realize improved momentum in sales and customer counts behind these initiatives. I'll now turn it back over to Mike for some closing comments.

Michael J Potter - Big Lots, Inc. - Chief Executive Officer

Thanks, Al, also in the release today you should have noticed that we've affirmed our third and fourth quarter guidance. Our third quarter guidance of a loss of 3 cents per share from continuing operations to earnings per share from continuing operations of 1 cent is based on a comp increase in the mid single digits. Comps are expected to increase in the mid single digit range in each of the months of August, September and October. For the fourth quarter, EPS estimates from continuing operations of 64 cents to 69 cents are based on a mid single-digit comp increase as well. This third and fourth quarter guidance reflects EPS growth in a range of 15 to 30% for the back half of the year. So tying this all up, getting ready to take some questions for you, as we review our year to date progress and more importantly the progress this business has made over the past three years, we're definitely excited about the state of Big Lots today and the momentum we have as we enter the back half of the year. Our initiatives are definitely working. Particularly encouraging is our success with the national TV ad campaign and the response we're enjoying should be just the beginning. As Al mentioned, the benefits should compound into 2004 and beyond. The ad strategy, great merchandise, cleaner, brighter stores are bringing our loyal customers back more often and we believe we're gaining new customers. Sales productivity is the key to expanding

our operating margin and customer transaction increases will be the principal driver to greater sales productivity. We'll continue to work very hard to grow our customer base and our basket. So with that, let me turn it back over to Barb, and take any of your questions.

QUESTION AND ANSWER

Operator

Ladies and gentlemen, at this time if you have a question, please press star and then 1 on your touchtone phone. You will hear a tone indicating you've been placed in queue. You may remove yourself from queue by pressing the pound key. If you're on a speakerphone please pick up the hand set before pressing the numbers. Again for questions, please press star 1at this time. The first question in queue will be from the line of Jeff Stein from McDonald Investments. Please go ahead, sir.

Jeff Stein - McDonald Investments - Analyst

Good morning, Mike. Well, you guys have done a great job of lapping a very tough first half. Question with regards to your national television advertising program, you've been talking about the compounding effect of TV and I'm just kind of curious, as you move into 2004, any thoughts in terms of what kind of lift you might expect to get from TV in '04 versus '03? In other words if you were telling us that you thought perhaps the lift might be a point this year in incremental sales, would it be greater next year given the compounding effect? And then talk about also how some of the other strategic initiatives that you continue to work on, such as adding furniture departments and store remodeling, might impact the 2004 year.

Michael J Potter - Big Lots, Inc. - Chief Executive Officer

Jeff, those are all great questions, I think for the most part you're probably at least a quarter ahead of us on most of the answers to that question. Let me tell you a few things though. TV for us right now is delivering exactly what we expected it to, in fact as Al spoke to it's really just a little bit above our plans. So we've learned so much over eight years on how this performs and what's exciting about TV, which we've talked about many times, is that it takes time to build a momentum of television, it's not like a circular. And so you get some lifts in the first year but those lifts really start to compound in year 2. So you get improving top line performance from it, and then what's wonderful about next year is it behaves much more as a fixed expense rather than a variable expense as the company grows. So we don't anticipate changing our dollar television spend much at all next year. I'm sure we'll revisit it, but I doubt that it will move very much. But we're blanketing the country with TV in the level and exposure we think is right. That behaves more as a fixed expense, we get the compounding effect on the top line, so obviously 2004 is an even more exciting year in terms of the accretive nature of TV than this year. But we're not ready to speak to specifics. Similar with your other questions as far as other initiatives, that's what we'll be doing this fall is wrapping up our analysis on remodels and furniture and a lot of what we've

been doing throughout this year in order to specifically define the initiatives for next year. But I don't think you'll be surprised if you hear us say that we're going to kind of continue on the plan that we've been on, we'll continue to expand the furniture business, we'll continue to downsize the hanging apparel business, we'll continue to upgrade our stores, we'll continue with our movement toward more of the television exposure and a little bit less of the circular exposure and just keep the model working.

Jeff Stein - McDonald Investments - Analyst

Okay. And Mike, one question with regard to inventory. Wondering if you could just talk a little bit about how you see your inventory position in the back half of the year, kind of on a comp store basis, and talk a little bit about what's going on a little bit underneath from a layering standpoint. In other words, how much are you reducing your seasonal, your investment in seasonal inventory for the back half of the year? And how much of the difference might you reinvest in consumables, for example?

Michael J Potter - Big Lots, Inc. - Chief Executive Officer

Okay. First of all, in total, you're going to see inventories in third and fourth quarter that are very similar to what you saw in the second quarter, not a whole lot of variance. So the numbers will continue to look very good, relatively flat on a per store basis as we go through the fall. So obviously that's going to have continuing strong impact on inventory turn. And there's a little bit different answer in terms of the mix impact quarter-by-quarter but in general, our seasonal exposure is lower this coming year than last year, particularly in the third quarter. Not so much at the end of the third quarter but throughout the third quarter, we're going to be more timely with the seasonal deliveries. And as we told you in prior quarters, we have toned down our seasonal exposure and moved it a little bit more into the basic category and less into the fashion. So seasonal as a category is less inventory investment, it's much more conservatively managed, it's not going to be a comp driver particularly in the third quarter because we'll be later with deliveries, we're more conservative in the offering but it's definitely going to be an improvement in our gross margin rate and our operating performance in the fourth quarter. So that's kind of the approach we're taking in that. And consumables, that you mentioned, we expect to continue to be a strong comp driver in the fall but we're not really doing it by increasing our inventory levels, we're doing it with great merchandise and we're turning that merchandise faster than we have before. So real good balance of inventory and very good levels of inventory throughout the fall season is what we would expect.

Jeff Stein - McDonald Investments - Analyst

Thanks.

Operator

Thank you. Our next question is from the line of Brent Rystrom from Piper Jaffray. Please go ahead.

Brent Rystrom - Piper Jaffray - Analyst

Good morning, three quick questions for you. The first one would be could you characterize a little more detail for me the remodels? You said they're more extensive than what you'd done previously, I'm wondering are they closer to what you have as your prototype up in Dublin, or how would you characterize these stores as being different from the other remodels? Second question would just be the follow-up on that consumables comment. I'm curious to know, of your consumable merchandise, how much of that is branded? And a final quick question would be could you give us an update also just on what specifically, what are the ads like you're running now for those of us who haven't seen all of the ads? Thank you.

Michael J Potter - Big Lots, Inc. - Chief Executive Officer

Brent, let me do a follow-up on your third question, are you talking about TV ads?

Brent Rystrom - Piper Jaffray - Analyst

Yes, just on the TV ads, is it still pretty much the Jerry Van Dyke or how has that evolved?

Michael J Potter - Big Lots, Inc. - Chief Executive Officer

Since we're on that one I'll start with that. It is still Jerry Van Dyke. Because so much of our audience this year, if you will, has never seen the commercials before, a lot of what we're playing this year are either very similar spots to what we played in the past year or two, or actually some of the same spots. So it's a same campaign that won us awards last year, it's the same type of campaign with Jerry Van Dyke, a very same approach. We do have some new spots that will run this fall, but they're in the same theme, they're just different productions with a different twist and actually they're a little bit more holiday oriented, obviously the leverage off that time period. Your first question on remodels, how extensive are they, are they similar to the Dublin store. They are more extensive remodels than what we did in 2001 and 2002 when we were just converting the names over to Big Lots. We are at the same time that we're refreshing the physical plant of the store, we're relaying the floor to our current floor set, which we call a Now 2, which doesn't mean anything to you, but that's just what we call it internally. It's not the same floor layout as Dublin. Dublin had more of a racetrack and it was diagonal in nature. That racetrack doesn't work in all of our stores. So we've taken a modified approach of it which is the Now 2. Outside of that layout

difference, if you walked into a remodel store, it would look very much like the store you saw in Dublin. We have the same signage package, we have that same bright, sharp look, we have a closeout swing area in the front of store, we have new marketing and signing. Other than that layout, it would look very similar.

Brent Rystrom - Piper Jaffray - Analyst

Kind of the next jump forward in the model?

Michael J Potter - Big Lots, Inc. - Chief Executive Officer

That's right, that's right. And your last question on consumables, how much of it is branded, it's almost entirely branded. I would say the part that is not branded is going to be our never out program, which is not national brand, but more of private label brand or non-branded. So it's probably in the consumables business, it's going to be 80 some% or 90 some% that's branded. That's what's great about consumables for us. Great brands, incredible values, and customers know what brand of merchandise is worth, so there's great ability for them to identify with the Big Lots value.

Brent Rystrom - Piper Jaffray - Analyst

Thank you.

Jeffrey Naylor - Big Lots, Inc. - Senior Vice President & Chief Financial Officer

Mike one other embellishment on the remodel, we are rolling out - some of the things we're doing with signage, we're not just rolling out delivery models in the new stores, we're actually rolling out chain wide, stores, whether they're a remodel, whether they're a new store, you will see a lot of sign package that you see in Dublin in those stores which we think helps convey value to our customers.

Brent Rystrom - Piper Jaffray - Analyst

Thanks, guys.

Operator

Thank you, our next question is from Mike Napolitana from JMP Securities. Please go ahead.

Mike Napolitana - JMP Securities - Analyst

Two questions. One is it seems like subtly the distribution center is sort of slipping into the first quarter of next year as far as when it's going to be completed. Just to set the record straight, when do you expect it to open officially and when do you expect some of the start-up costs to impact earnings, whether it's Q4 or Q1 next year? Secondly, we want to talk to you a little bit about the store opening program, but I'll let you answer the first question first.

Michael J Potter - Big Lots, Inc. - Chief Executive Officer

The first one, no, the DC has not changed at all, in fact we're a little ahead of schedule on the construction of the Durant facility. Probably what you're thinking of is we will begin receiving merchandise in either late December or January. That has stayed the same, primarily January. We begin operating and shipping and servicing stores in the first quarter of next year. So that has not changed. And the expense structure has not changed. Really you're going to see most of the cost of operating the facility begin in the first quarter of next year.

Mike Napolitana - JMP Securities - Analyst

So the fourth quarter guidance you've given reflects some of those costs to get that up and running and start receiving merchandise?

Michael J Potter - Big Lots, Inc. - Chief Executive Officer

That's right.

Jeffrey Naylor - Big Lots, Inc. - Senior Vice President & Chief Financial Officer

That's right.

Mike Napolitana - JMP Securities - Analyst

And then secondly, given the success you had with the comps in the second quarter, your comment today about some of the new stores that were re-grand opened, having some slowdown in advance of that, now that you're past all that construction, are you assuming now that maybe you might have an incremental comp lift from your earlier guidance given that you're kind of past all those remodelings?

Michael J Potter - Big Lots, Inc. - Chief Executive Officer

No I think all of that was really incorporated in what we had been estimating and what we will be estimating going forward. Really as an example or an offset to that, in August right now we've been anniversaring last year's conversion of Pick and Save to Big Lots which was a very big driver. There's offsetting influences positive and negative. So really that's all incorporated in our guidance going forward.

Mike Napolitana - *JMP Securities - Analyst*

Great, thanks.

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

Thank you.

Operator

Next question is from the line of Ryan Casey from Blaylock and Partners. Please go ahead.

Mark Mendel - *Blaylock & Partners - Analyst*

Thanks, this is Mark Mendel with Blaylock. Good morning, I was wondering if you could give us some update as to what your numbers or what your surveys are showing regarding customer awareness and where you are in terms of your in-stock position?

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

Customer awareness, we measure that more on a seasonal or annual basis, we have had some recent measurements and there's absolutely no doubt that whether it's top of mind awareness or the perceived quality of Big Lots as a brand or all the different measurements that we make, we've definitely made some strides in that regard. Particularly in what has been TV markets or now what is becoming for the first time TV markets. So that's definitely growing. I would probably want to reserve until year-end a point in time where we feel like we can get a good measurement of what was the impact of this year's program, since it's still only halfway through the year on that. But I would expect to report at year-end that we've definitely made some strides on national awareness of Big Lots. In the second part of your question of in-stock position in never outs, we're now actually in the 95 to 97% in-stock position every week in the category of never outs. So we actually have continued to improve upon that as time has gone on.

Mark Mendel - *Blaylock & Partners - Analyst*

You had mentioned ad spending, or at least TV ad spending would remain relatively constant in dollars next year. What can we look for in terms of overall advertising spending as a percent of sales? Can we expect some leverage next year?

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

It's a little early to tell you that. This was the one year where we actually had just a hair bit of de-leverage as we went to the national campaign. I would certainly at this point in time tell you there is no plan for it to de-leverage next year. I would expect it would either be a similar percent or we would begin to leverage. We're just putting our plans together, but there's certainly the opportunity to leverage next year but I'll hold that open until we go through our budget process.

Mark Mendel - *Blaylock & Partners - Analyst*

Thanks, and congratulations.

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

Thanks, Mike.

Operator

Your next question is from the line of David Mann from Johnson Rice. Please go ahead.

David Mann - *Johnson Rice & Co - Analyst*

Yes, a couple of questions. In terms of the TV advertising have you been able to do any tests on how much that has gained new customers for you?

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

We've done some, David, I still want to do more in the fall. Generally, what we have found is that it is adding new customers. I wouldn't call it a dramatically material number, but it's meaningful and I'm not ready to disclose that because we want to do more analysis on it. But we know it's working and I think we need to get more comfort with, to what degree are we getting new customers. The other thing I want to know over time is how well are we retaining those new customers.

David Mann - *Johnson Rice & Co - Analyst*

The closeout swing area that you're rolling out to some of the stores, any elaboration you can give us on how that's performing in terms of sell through of that product?

Very good. It's still early, and actually there's a version of the closeout swing area that is in every store now. The one that I really speak to, the one that people have seen in Columbus, the one that you would see in a brand-new store or a remodel is a fairly good-sized squared out area in the very front of the store with a back drop billboard and signage and it's a pretty nice strong space. We have also tried to work in a smaller area, which is a little more



perpendicular to the front of the store in other stores where we haven't relayed the store so that we can have some of that exposure as well. But that's an area where we want to hit the customer as soon as they walk in with the very best of primarily branded closeout merchandise, the very best values and have it change literally every week so it's fresh, it's exciting, we feature ad merchandise in there every other week when we run an ad. We feature other product in there. Right now, if you look at it, there's some great Rubbermaid deals, we're just moving in and out of a lot of great stuff.

David Mann - *Johnson Rice & Co - Analyst*

Mike, do you think that's one reason why your ads sell through is higher than last year?

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

Well, our ad sell through right now has been just on a steady pace for three years, so I think our ad sell through is a culmination of a lot of things, I think we're a lot more focused on the ad, we're getting a better theme in each ad, every ad is just more compelling. But definitely to the extent that you can expose the merchandise better in the front of the store, that is the best real estate in the store. That by far has the best sell through and we want that to be the very best at Big Lots. So whether it's ad or non-ad, absolutely, it's going to be the most productive area of the store.

David Mann - *Johnson Rice & Co - Analyst*

Then one last question, I don't know if you commented on this, Jeff, in terms of the Transpacific Freight costs last quarter you made a comment on how it might have an impact in the back half. Can you just elaborate on where you stand on that and any cost saving initiatives to offset that?

Jeffrey Naylor - *Big Lots, Inc. - Senior Vice President & Chief Financial Officer*

I think when we identify that, we talked about it at the end of the last call and we identified that, the majority of the freight increase we'd built into our plan, but there was roughly \$5 million or so, slightly higher than that, that was an increase that we hadn't yet covered at the end of the first quarter, we now believe we've got that covered, it's reflected in our guidance, and we've been able to cover it through price concessions on the buy side as well as in certain cases price adjustments principally to blind items. So I think more or less as you look at the guidance, that's all baked in and we feel comfortable that we've got it covered.

David Mann - *Johnson Rice & Co - Analyst*

Okay, thank you.

Operator

Next question is from the line of Lee Backus from Buckingham Research.

Lee Backus - *Buckingham Research - Analyst*

Mike, you've talked a lot about TV advertising, could you talk a little bit about your circulars and you see any change in the circular program, or impact of the circular program going forward?

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

We dropped one more circular this year, so we're down to 25 a year and we were close to 40 about four years ago. I do not anticipate us adding a circular next year, that's just actually something we know we don't need to do. We will probably take a look this fall to see if there are one or two more that we might want to drop but I don't think you'll see us making any dramatic change in the circular program next year. And it's working great. I think one of the things that I would point out, three years later in this whole initiative and change, the 25 circulars we're doing this year is doing more volume than the 36 circulars did three years ago. So that's a result of every circular on a per store basis being up double digits three years in a row. We don't really have any more circulars that are not productive. We have all circulars that generate great profit for Big Lots. I think it is important in the closeout business to continue to be in the customers' face with circulars every few weeks to remind them of product and price, and drive that closeout shopping concept home on a regular basis. So it seems to be working well in the formula that we have.

Lee Backus - *Buckingham Research - Analyst*

Also, consider that you may get some leverage on advertising next year, and the new DC that you're opening, could you give us a sense of what kind of comps you need to be able to leverage SG&A?

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

Not yet.

Jeffrey Naylor - *Big Lots, Inc. - Senior Vice President & Chief Financial Officer*

I think we've said for this year, it's in the three to 4% range, really 4% slight below for the year at which, that's the rate at which we leverage G&A, in the back half it's 3% or slightly under and I think

we have to, as Mike said, put our plan together for next year which we're beginning to work on now, we'll have more to say in a later call.

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

Lee, we've had a lot of questions today about next year and I certainly understand those. Typically what we do is in our February call is when we really lay out our plans. We have not been able to say much in the November quarterly call, the third quarter call because we're still really in the process of refining that. And we go to the board with that in February. So it will probably be the same approach. We certainly look forward to the year 2004, but when we lay it all out in detail for you, will likely be the February call.

Lee Backus - *Buckingham Research - Analyst*

Okay. Thank you.

Operator

Thank you. And once again, ladies and gentlemen, for any questions, please press star 1 at this time.

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

Barb, sounds like we're done.

Operator

No questions in queue.

Michael J Potter - *Big Lots, Inc. - Chief Executive Officer*

I'll turn it back to you, but thank you everyone for joining us for our second quarter call.

Operator

Ladies and gentlemen, this conference is available for replay beginning today at 12 00 p.m. eastern time through September 3rd at midnight. To access the AT&T Replay System dial 1-800-475-6701 and the access code 695274. And that number again is 1-800-475-6701, with the access code 695274. And that concludes your conference for today. Thank you for your participation and using AT&T Executive Teleconference, you may now disconnect.

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