

**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 29, 2005
Commission file number 1-8897

BIG LOTS, INC.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of
incorporation or organization)

06-1119097

(I.R.S. Employer Identification No.)

300 Phillipi Road, P.O. Box 28512, Columbus, Ohio

(Address of principal executive offices)

43228-5311

(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 \$.01 par value

New York Stock Exchange

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 (Section 229.405 of this chapter) 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 an accelerated filer (as defined in 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 \$1,369,048,272 on July 31, 2004 (based on the closing price of the Registrant's Common Shares on that date as reported on the New York Stock Exchange).

The number of Registrant's Common Shares outstanding as of April 8, 2005 was 113,561,441.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for its 2005 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 29, 2005

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PART I

ITEM 1. BUSINESS

The Company

On May 15, 2001, Consolidated Stores Corporation, a Delaware corporation (“Consolidated (Delaware)”), was merged (the “Merger”) with and into Big Lots, Inc., an Ohio corporation and a wholly owned subsidiary of Consolidated (Delaware). Big Lots, Inc. was formed in 2001 as a vehicle to effect the change of the state of incorporation of Consolidated (Delaware) from Delaware to Ohio through the Merger.

Each common share, par value \$0.01 per share, of Consolidated (Delaware) was converted into one common share, par value \$0.01 per share, of Big Lots, Inc. automatically as a result of the Merger. By virtue of the Merger, Big Lots, Inc. succeeded to all the business, properties, assets, and liabilities of Consolidated (Delaware). Pursuant to Rule 12g-3(a) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Big Lots, Inc. common shares are deemed to be registered under the Exchange Act.

Big Lots, Inc. manages its business on the basis of one segment: broadline closeout retailing. Its principal executive offices are located at 300 Phillipi Road, Columbus, Ohio 43228, and its telephone number is (614) 278-6800. All references herein to the “Company” are to Big Lots, Inc. and its subsidiaries. All of the Company’s operations were located within the United States of America at January 29, 2005, and January 31, 2004.

The Company is the nation’s largest broadline closeout retailer. At January 29, 2005, the Company operated a total of 1,502 stores in 46 states with 1,459 stores under the name Big Lots and 43 stores under the name Big Lots Furniture. The Company’s goal is to build upon its leadership position in broadline closeout retailing by expanding its market presence in both new and existing markets. The Company’s Web site is located at www.biglots.com. Wholesale operations are conducted through Big Lots Wholesale, Consolidated International, and Wisconsin Toy, with online sales at www.biglotswholesale.com. The contents of the Company’s Web sites are not part of this report.

Associates

At January 29, 2005, the Company had 46,241 active associates comprised of 18,623 full-time and 27,618 part-time associates. Temporary associates hired during the fall and winter holiday selling season increased the number of associates to a peak of 51,740 in fiscal year 2004. 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

Closeout retailers provide a service to manufacturers by purchasing excess product that generally results from production overruns, packaging changes, discontinued products, or returns. As a result of the lower purchase cost, closeout retailers can generally offer most merchandise at prices lower than those offered by traditional 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				
	2004	2003	2002	2001	2000 ⁽¹⁾
Stores open at the beginning of the fiscal year	1,430	1,380	1,335	1,290	1,230
Stores opened during the fiscal year	103	86	87	78	83
Stores closed during the fiscal year	(31)	(36)	(42)	(33)	(23)
Stores open at the end of the fiscal year	<u>1,502</u>	<u>1,430</u>	<u>1,380</u>	<u>1,335</u>	<u>1,290</u>

- (1) Fiscal year 2000 is exclusive of the KB Toys business which the Company divested pursuant to a Stock Purchase Agreement dated December 7, 2000, between Big Lots Stores, Inc. and KB Acquisition Corp.

The Company's stores are known for their wide assortment of closeout merchandise. Certain core categories of merchandise, such as consumables, hardlines, and toys, are carried on a continual basis, although the specific brand-names offered may change frequently. The Company's stores also offer a small but consistent line of basic items, which the Company believes strengthens its role as a dependable, one-stop shop for everyday needs. In addition, the stores feature seasonal items for every major holiday, as well as a wide assortment of merchandise for the home, including furniture, home décor, and domestics.

The following table details the store locations at January 29, 2005:

Alabama	35	Maine	3	Ohio	138
Arizona	31	Maryland	12	Oklahoma	22
Arkansas	11	Massachusetts	14	Oregon	11
California	190	Michigan	50	Pennsylvania	60
Colorado	22	Minnesota	9	South Carolina	28
Connecticut	7	Mississippi	16	Tennessee	48
Delaware	2	Missouri	27	Texas	113
Florida	112	Montana	2	Utah	13
Georgia	63	Nebraska	4	Virginia	43
Idaho	6	Nevada	13	Vermont	2
Illinois	46	New Hampshire	7	Washington	18
Indiana	54	New Jersey	9	West Virginia	24
Iowa	10	New Mexico	12	Wisconsin	21
Kansas	12	New York	47	Wyoming	2
Kentucky	44	North Carolina	59	Total stores	1,502
Louisiana	27	North Dakota	3	Number of states	46

A large number of stores operate profitably in relative close proximity. For example, 553 of the total 1,502 stores operate in four states: California, Ohio, Texas, and Florida. The Company believes substantial opportunities exist to increase the store base in new and existing markets.

Wholesale Operations

The Company also sells wholesale merchandise which is generally obtained through the same or shared opportunistic purchases as the retail operations. Marketing of wholesale merchandise is conducted primarily at trade shows, by mailings to past and potential customers, and through the Company's wholesale Web site at www.biglotswholesale.com. Wholesale customers include a wide and varied range of major national and regional retailers, as well as smaller retailers, distributors, liquidators, and wholesalers.

Wholesale sales are recognized in accordance with the shipping terms agreed upon on the purchase order. The shipping terms on wholesale sales are generally free on board ("FOB") origin where title and risk of loss pass to the buyer when the merchandise leaves the Company's distribution facility. However, when the shipping terms are FOB destination, recognition of sales revenue is delayed until completion of delivery to the designated location.

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. In August 2004, Big Lots Capital, Inc., a wholly owned subsidiary, was established with its primary role to source merchandise outside of the Company's customary brand-name closeout sourcing channels. These expanded sourcing channels are expected to 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 categories such as furniture, home décor,

and seasonal. The Company expects that the unpredictability of the retail and manufacturing environment 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 2004, the Company's top ten vendors accounted for 12.4% of total purchases (at cost) with no single vendor accounting for more than 1.8% of the aggregate.

The Company purchases approximately 30% of its product directly from overseas suppliers, of which approximately 25% is purchased from manufacturers located in China. Additionally, a significant amount of its domestically purchased merchandise is also manufactured abroad. As a result, a significant portion of the Company's merchandise supply is subject to certain risks including increased import duties and 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. While the Company believes that alternative domestic and foreign sources could supply merchandise to the Company, an interruption or delay in supply from the Company's foreign sources, or the imposition of additional duties, taxes, or other charges on these imports, could have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

Warehouse and Distribution

An important aspect of the Company's purchasing strategy involves its ability to warehouse and distribute merchandise quickly and efficiently. The Company positions its distribution facilities to enable quick turn of time-sensitive product while attempting to minimize transportation costs and miles from distribution facilities to stores. 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.

After substantially completing the construction of a closeout distribution center in Durant, Oklahoma (the "Durant DC") in fiscal year 2003, the Company began shipping merchandise to stores from this facility in April 2004 and is currently servicing 132 stores from this facility. The re-engineering of the Company's Columbus, Ohio closeout distribution center (the "Columbus DC") is expected to improve both productivity and reliability and be completed in fiscal year 2005.

In an effort to expand the Company's furniture presence in the western regions of the country, the Company opened a furniture distribution facility in Redlands, California (the "Redlands DC") in fiscal year 2004. The Company began shipping merchandise from this facility in September 2004 to approximately 300 stores.

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 2004 was designed to continue to build awareness of the Big Lots® brand and highlight 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 and grand openings to the public. These approaches may vary by market and by season.

In the interest of expanding the customer base and increasing the Company's overall level of top-of-mind brand awareness, national television advertising began 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 eventually reached a high of 850 stores, or approximately two-thirds of the total store base, with television advertising coverage. In fiscal year 2004, the Company launched a new series of nine 30-second national television advertising commercials covering all stores in all markets.

For fiscal year 2005, the Company expects television advertising to be consistent with fiscal year 2004. Nine new commercials are planned to continue to leverage the Company's single brand and to increase consumer brand awareness. Fiscal year 2005 television costs as a percent of total net sales are expected to remain relatively flat to fiscal year 2004.

The marketing program also utilizes printed advertising circulars in all markets. In fiscal year 2004, the Company distributed approximately 41 million multi-page circulars per week for 25 weeks. The method of distribution included a combination of newspaper insertions and direct mail. 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 2005, the Company expects to distribute circulars 24 weeks of the year. 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 2.7%. In fiscal year 2004, 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. This intellectual property is generally owned by an intellectual property protection subsidiary that is wholly owned and is included in the consolidated results of the Company. The Company considers its intellectual property to be among its most valuable assets and, where applicable, has registered or has applications pending 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 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, as well as the timing of television and circular advertising, and the timing of certain holidays. The Company purchases substantial amounts of inventory in the third fiscal quarter and incurs higher shipping costs and higher payroll costs in anticipation of the increased sales activity during the fourth fiscal quarter.

The seasonality of the Company's business also 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 seasonal borrowings during the fourth fiscal quarter. Due to the termination in fiscal year

2004 of the \$204.0 million in senior notes privately placed in fiscal year 2001 (the "Senior Notes"), the Company expects that it will maintain borrowings under its \$500.0 million unsecured credit facility entered into in fiscal year 2004 (the "2004 Credit Agreement") throughout fiscal year 2005. 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 and the Company's need to acquire merchandise inventory.

Competitive Conditions

All aspects of the retailing industry are highly competitive. The Company competes with discount stores (such as Wal-Mart® and Target®), dollar stores, deep discount drugstore chains, arts and crafts retailers, and other value-oriented retailers. Certain of the Company's competitors have greater financial, distribution, marketing, and other resources than the Company.

The Company relies on buying opportunities from both existing and new sources, for which it competes with other retailers and wholesalers. The Company believes its longstanding relationships with suppliers competitively positions it to seek new sources to maintain an adequate and continuing supply of quality closeout merchandise at competitive prices.

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(a) 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 2005 Annual Meeting of Shareholders (the "2005 Proxy Statement"). The SEC allows the Company to disclose important information by referring to it in this manner.

On or about April 25, 2005, the 2005 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, Nominating and Compensation, and 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 or waivers from its Code of Business Conduct and Ethics (to the extent applicable to the Company's directors and executive officers) and to the 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 sites are not part of this report.

ITEM 2. PROPERTIES

Retail Operations

The Company's stores are located in the United States, predominantly in strip shopping centers. Approximately 98% of stores range in size from 10,000 to 50,000 gross square feet with an average store size of approximately 28,600 gross square feet, of which an average of 20,600 square feet is selling square feet. The average cost to open a new store in a leased facility during fiscal year 2004 was approximately \$900,000, including 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 60 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.

Store lease expirations, exclusive of month-to-month leases and owned locations, at January 29, 2005, were as follows:

Fiscal Year:	
2005	200
2006	256
2007	227
2008	236
2009	244
Thereafter	326
Total	1,489

Warehouse and Distribution

At January 29, 2005, 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 2.6 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 29, 2005, were as follows:

State	Owned	Leased	Total	Square Footage		
				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

Construction of the Durant DC was substantially completed in late fiscal year 2003. The Durant DC began receiving merchandise in January 2004 and began shipping merchandise in April 2004. This facility is expected to allow the Company's current distribution infrastructure to support up to 1,750 stores, which

represents the total of the Company's current fleet of stores and approximately the next four years of anticipated net new store growth.

In an effort to further expand its sales in the furniture category nationally, on April 26, 2004, the Company entered into a lease for the Redlands DC in order to support the Company's growth of furniture in the western regions of the country. With the final elimination of hanging apparel, a limited furniture merchandise offering was introduced in approximately 300 stores primarily located on the West Coast where store size tends to be smaller than the Company's average store size and selling square footage is at a premium. The Redlands DC is currently supporting the furniture distribution to the majority of these 300 stores and has the capacity to support up to 500 stores.

Additionally, the Company owns perishable merchandise stored in and distributed from third party warehouses. As necessary, the Company leases additional temporary warehouse space throughout the year to support its warehousing and distribution requirements.

ITEM 3. LEGAL PROCEEDINGS

No response is required under Item 103 of Regulation S-K. For a discussion of certain litigated matters, refer to Note 3 (KB Toys Matters) and Note 5 (Commitments and Contingencies) 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 2004.

EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's executive officers at January 29, 2005, were as follows:

Name	Age	Current Office	Executive Since
Michael J. Potter	43	Chairman, Chief Executive Officer and President	1991
John C. Martin	54	Executive Vice President, Merchandising	2003

Donald A. Mierzwa	54	Executive Vice President, Store Operations	1998
Brad A. Waite	47	Executive Vice President, Human Resources, Loss Prevention, Real Estate and Risk Management	1998
Joe R. Cooper	47	Senior Vice President and Chief Financial Officer	2000
Charles W. Haubiel II	39	Senior Vice President, General Counsel and Corporate Secretary	1999
Kent A.W. Larsson	60	Senior Vice President, Marketing	1998
Anita C. Elliott	40	Vice President, Controller	2001
Timothy A. Johnson	37	Vice President, Strategic Planning and Investor Relations	2004

Michael J. Potter was promoted to Chief Executive Officer and President in June 2000. Mr. Potter was appointed Chairman of the Board of Directors in August 2000. Mr. Potter joined the Company in 1991 as Vice President and Controller and was later promoted to Senior Vice President and Chief Financial Officer. In 1998, he was promoted to Executive Vice President and assumed the additional responsibilities for Distribution and Information Services.

John C. Martin is responsible for the Company’s merchandising, merchandise planning, and allocation. Prior to joining the Company in 2003, Mr. Martin was the President of Garden Ridge, an arts and crafts retailer, and previously served as President and Chief Operating Officer of Michaels Stores, an arts and crafts retailer, and President, Retail Stores Division of OfficeMax.

Donald A. Mierzwa is responsible for the Company’s store operations, including store standards, customer service, personnel development, and 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 Resource management and senior management positions prior to his promotion to Executive Vice President in July 2000.

Joe R. Cooper 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, Strategic Planning and Investor Relations in May 2000. In July 2000, he assumed responsibility for the treasury department and was appointed Vice President, Treasurer. Prior to joining the Company, Mr. Cooper held various financial and accounting positions with Bath & Body Works, a specialty retailer, KinderCare Learning Centers, Inc., The Limited, Inc., and KPMG Peat Marwick LLP.

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. Prior to joining the Company, Mr. Haubiel practiced law with the law firm of Vorys, Sater, Seymour and Pease LLP.

Kent A.W. Larsson is 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.

Anita C. Elliott is responsible for internal and external financial reporting and accounting operations including payroll, accounts payable and inventory control. She joined the Company as Vice President, Controller in May 2001. Prior to joining the Company, Ms. Elliott served as Controller for Jitney-Jungle Stores of America, Inc., a grocery retailer. She also practiced public accounting for twelve years, a portion of which was with Ernst & Young LLP.

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. Prior to joining the Company, Mr. Johnson held various financial and accounting positions with Structure, a clothing retailer, and Coopers & Lybrand LLP.

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			
	2004		2003	
	High	Low	High	Low
First Quarter	\$15.61	\$13.42	\$13.07	\$ 9.92
Second Quarter	15.62	12.22	16.24	11.52
Third Quarter	13.27	11.05	18.39	14.13
Fourth Quarter	13.26	10.62	15.25	12.89

The Company has followed a policy of reinvesting available cash in the business and 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.

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 and are expected 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 25, 2005, there were 1,312 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 included herein.

	Fiscal Year ^{(a)(b)}				
	2004	2003 (Restated)	2002 (Restated)	2001 (Restated)	2000 ^{(c)(d)} (Restated)
(In thousands, except per share amounts and store counts)					
Net sales	\$4,375,072	\$4,174,383	\$3,868,550	\$3,433,321	\$3,277,088
Cost of sales	2,597,635	2,428,024	2,236,633	2,092,183	1,891,345
Gross profit	1,777,437	1,746,359	1,631,917	1,341,138	1,385,743
Selling and administrative expenses	1,605,673	1,523,913	1,400,986	1,297,710	1,136,981
Depreciation expense	104,239	93,703	85,690	71,950	64,455
Operating profit (loss)	67,525	128,743	145,241	(28,522)	184,307
Interest expense	24,845	16,443	20,954	20,489	23,557
Interest income	(618)	(1,061)	(843)	(287)	(610)
Income (loss) from continuing operations before income taxes	43,298	113,361	125,130	(48,724)	161,360
Income tax expense (benefit)	12,887	23,421	49,397	(19,262)	63,759
Income (loss) from continuing operations	30,411	89,940	75,733	(29,462)	97,601
(Loss) income from discontinued operations	(6,648)	(9,720)	—	8,480	(478,976)
Net income (loss)	<u>\$ 23,763</u>	<u>\$ 80,220</u>	<u>\$ 75,733</u>	<u>\$ (20,982)</u>	<u>\$ (381,375)</u>
Income (loss) per common share — basic:					
Continuing operations	\$ 0.27	\$ 0.77	\$ 0.65	\$ (0.25)	\$ 0.88
Discontinued operations	(0.06)	(0.08)	—	0.07	(4.30)
	<u>\$ 0.21</u>	<u>\$ 0.69</u>	<u>\$ 0.65</u>	<u>\$ (0.18)</u>	<u>\$ (3.42)</u>
Income (loss) per common share — diluted:					
Continuing operations	\$ 0.27	\$ 0.77	\$ 0.65	\$ (0.25)	\$ 0.87
Discontinued operations	(0.06)	(0.09)	—	0.07	(4.26)
	<u>\$ 0.21</u>	<u>\$ 0.68</u>	<u>\$ 0.65</u>	<u>\$ (0.18)</u>	<u>\$ (3.39)</u>
Weighted-average common shares outstanding:					
Basic	114,281	116,757	115,865	113,660	111,432
Diluted	114,801	117,253	116,707	113,660	112,414
Balance sheet data:					
Total assets	\$1,733,584	\$1,800,543	\$1,655,571	\$1,470,281	\$1,527,873
Working capital	622,269	718,620	654,626	555,719	696,828
Long-term obligations	159,200	204,000	204,000	204,000	268,000
Shareholders' equity	\$1,075,490	\$1,108,779	\$1,020,088	\$ 922,533	\$ 923,560
Store data:					
Total gross square footage	42,975	40,040	37,882	35,528	33,595
Total selling square footage	30,943	29,019	27,593	26,020	24,641
Stores opened during the fiscal year	103	86	87	78	83
Stores closed during the fiscal year	(31)	(36)	(42)	(33)	(23)
Stores open at end of the fiscal year	1,502	1,430	1,380	1,335	1,290

(a) References throughout this document to fiscal years 2004, 2003, 2002, 2001, and 2000 refer to the fiscal years ended January 29, 2005; January 31, 2004; February 1, 2003; February 2, 2002; and February 3, 2001, respectively.

- (b) For information relating to the restatement, refer to Note 2 (Restatement of Previously Issued Consolidated Financial Statements) to the Consolidated Financial Statements in this Annual Report on Form 10-K.
- (c) The fiscal year ended February 3, 2001, is comprised of 53 weeks.
- (d) Exclusive of the KB Toys business which the Company divested pursuant to a Stock Purchase Agreement dated as of December 7, 2000.

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

Cautionary Statement Concerning Forward-Looking Statements for Purposes of "Safe Harbor" Provisions of the Private 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 statements. The Company wishes to take advantage of the "safe harbor" provisions of the Act.

This report, 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. By their nature, all forward-looking statements involve risks and uncertainties. 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, future earnings, store openings and new market entries, anticipated inventory turn, and other similar matters, as well as statements expressing optimism or pessimism about future operating results or events, 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," and similar expressions generally identify forward-looking statements. The forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. Although the Company believes the expectations expressed in 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 statements.

The Company's 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 the Company's business, financial condition, results of operations, or liquidity. These factors may include, but are not limited to:

- the Company's ability to source and purchase merchandise on favorable terms;
- interruptions and delays in merchandise supply from the Company's and its vendors' foreign and domestic sources;
- risks associated with purchasing, directly or indirectly, merchandise from foreign sources, including increased import duties and taxes, imposition of more restrictive quotas, loss of "most favored nation" trading status, currency fluctuations, work stoppages, transportation delays, foreign government regulations, political unrest, natural disasters, war, terrorism, and trade restrictions, including retaliation by the United States against foreign practices;
- the ability to attract new customers and retain existing customers;
- the Company's ability to establish effective advertising, marketing, and promotional programs;
- economic and weather conditions which affect buying patterns of the Company's customers;
- changes in consumer spending and consumer debt levels;
- the Company's ability to anticipate buying patterns and implement appropriate inventory strategies;
- continued availability of capital and financing on favorable terms;
- competitive pressures and pricing pressures, including competition from other retailers;
- the Company's ability to comply with the terms of its credit facilities (or obtain waivers for noncompliance);

- significant interest rate fluctuations and changes in the Company's credit rating;
- the creditworthiness of the purchaser of the Company's former KB Toys business;

- the Company's indemnification and guarantee obligations with respect to approximately 390 KB Toys store leases and other real property leases, some or all of which may be rejected or materially modified in connection with the pending KB Toys bankruptcy proceedings, as well as other potential costs arising out of the KB Toys bankruptcy;
- litigation risks and changes in laws and regulations, including changes in accounting standards, the interpretation and application of accounting standards, and tax laws;
- transportation and distribution delays or interruptions that adversely impact the Company's ability to receive and/or distribute inventory;
- the impact on transportation costs from the driver hours of service regulations adopted by the Federal Motor Carriers Safety Administration that became effective in January 2004;
- the effect of fuel price fluctuations on the Company's transportation costs and customer purchases;
- interruptions in suppliers' businesses;
- the Company's ability to achieve cost efficiencies and other benefits from various operational initiatives and technological enhancements;
- the costs, interruptions, and problems associated with the implementation of, or failure to implement, new or upgraded systems and technology;
- the effect of international freight rates and domestic transportation costs on the Company's profitability;
- delays and costs associated with building, opening, and modifying the Company's distribution centers;
- the Company's ability to secure suitable new store locations under favorable lease terms;
- the Company's ability to successfully enter new markets;
- delays associated with constructing, opening, and operating new stores;
- the Company's ability to attract and retain suitable employees; and
- other risks described from time to time in the Company's filings with the SEC, in its press releases, and in other communications.

The foregoing list is not exhaustive. There can be no assurances that the Company has correctly and completely identified, assessed, and accounted for all factors that do or may affect its business, financial condition, results of operations, and liquidity. Additional risks not presently known to the Company or that it believes to be immaterial also may adversely impact the Company. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on the Company's 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 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 public announcements and SEC filings.

Overview

The discussion and analysis presented below should be read in conjunction with the Consolidated Financial Statements and related Notes included elsewhere herein.

Business Operations

The Company is the nation's largest broadline closeout retailer. At January 29, 2005, the Company operated a total of 1,502 stores in 46 states with 1,459 stores under the name Big Lots and 43 stores under the name Big Lots Furniture. The Company's goal is to build upon its leadership position in broadline closeout retailing by expanding its market presence in both existing and new markets. The Company believes that the combination of its strengths make it a low-cost value retailer well positioned for continued growth. The Company's Web site is located at www.biglots.com. Wholesale operations are conducted through Big Lots Wholesale, Consolidated International, Wisconsin Toy, with online sales at www.biglotswholesale.com. The contents of the Company's Web sites are not part of this report.

The following table compares components of the Consolidated Statements of Operations of the Company as a percentage of net sales:

	Fiscal Year		
	2004	2003	2002
Net sales	100.0%	100.0%	100.0%
Cost of sales	59.4	58.2	57.8

Gross profit	40.6	41.8	42.2
Selling and administrative expenses	36.7	36.5	36.2
Depreciation expense	2.4	2.2	2.2
Operating profit	1.5	3.1	3.8
Interest expense	0.5	0.4	0.5
Interest income	(0.0)	(0.0)	(0.0)
Income from continuing operations before income taxes	1.0	2.7	3.3
Income tax expense	0.3	0.6	1.3
Income from continuing operations	0.7	2.1	2.0
Loss from discontinued operations	(0.2)	(0.2)	0.0
Net income	0.5%	1.9%	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 2004				
Net sales percentage of full year	23.3%	22.7%	22.4%	31.6%
Operating profit (loss) as a percentage of full year — restated ^(a)	20.1	(12.2)	(40.0)	132.1
Fiscal Year 2003				
Net sales percentage of full year	22.7%	22.8%	22.7%	31.8%
Operating profit (loss) as a percentage of full year — restated	16.0	(7.7)	(4.1)	95.8
Fiscal Year 2002				
Net sales percentage of full year	23.4%	22.7%	22.4%	31.5%
Operating profit (loss) as a percentage of full year — restated	17.0	6.8	(2.4)	78.6

(a) The first, second, and third quarters of fiscal year 2004 are restated for certain lease accounting corrections.

Store Remodels and Conversions

In conjunction with the Company's initiative to change its name to Big Lots and operate under one brand name, approximately 430 stores were remodeled during fiscal years 2001 and 2002, including 380 stores previously operating under the names Odd Lots, MacFrugal's, and Pic 'N' Save, and 54 existing Big Lots stores located in conversion markets. As of the end of fiscal year 2002, all stores were operating under the Big Lots name. The Company believes that Big Lots is its most recognizable brand name, and this change offers numerous opportunities to increase brand awareness among customers, suppliers, investors, and the general public. The Company believes the conversion also allows it to efficiently leverage a single brand name through television advertising and other advertising programs.

In connection with this conversion and remodeling process, the Company made certain improvements to the converted sites. The improvements varied by location and included, among other things, painting, lighting retrofits, new signage (interior and exterior) and advertising, new flooring, and updated restrooms. In fiscal year 2003, the Company remodeled 211 stores. These remodels included similar improvements and, in addition, included new fixtures and a new merchandise layout. In fiscal year 2004, the Company remodeled 66 stores in 12 markets. The Company also added a closeout swing area to another 74 stores. The closeout swing area is located at the front of the store and features the newest and most compelling brand-name closeout merchandise the store has to offer. The selection can vary by store, and items normally only last about a week before selling out or moving to their natural location in the store.

In the last four years, the Company has remodeled over 700 stores. Based on the number of stores remodeled in the last four years, the Company estimates approximately 75% of its stores have either been remodeled or opened as new stores in the last six years. The average cost of the improvements for converted and remodeled stores was approximately \$0.1 million per store during fiscal years 2001 through 2004.

Furniture and Distribution Facility Growth

During fiscal year 2004, the Company added 224 furniture departments (net of closed departments), ranging in size from 2,000 to 5,000 square feet. The furniture category has grown over the last nine years to a level representing 12.5% of the Company's net sales in fiscal year 2004 compared to 12.1% in fiscal year 2003. The Company operated 1,069 furniture departments within existing closeout stores at the end of fiscal year 2004, in addition to 43 freestanding furniture stores.

In an effort to expand the Company's furniture presence, the Redlands DC was opened in fiscal year 2004. This facility began shipping merchandise in September 2004 to approximately 300 stores principally in the western regions of the country. The majority of these stores support approximately 700 selling square feet of

furniture with a limited merchandise assortment consisting principally of ready-to-assemble furniture, futons, and lamps. With the expansion of furniture departments in the West and a selection of ready-to-assemble furniture in 295 stores, the Company offered a furniture assortment in 1,364 of its 1,459 closeout stores as of the end of fiscal year 2004.

Restatement of Previously Issued Consolidated Financial Statements

In light of views expressed by the Office of the Chief Accountant of the SEC on February 7, 2005, the Company reviewed its accounting practices for operating leases.

Under the requirements of the Financial Accounting Standards Board (“FASB”) Technical Bulletin 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*, rent expense should be amortized on a straight-line basis over the term of the lease. In prior periods, the Company had determined that the term of the lease began on the earlier of the commencement date of the lease or the store opening date, rather than at the time the Company took physical possession of the property to start construction of leasehold improvements. This had the effect of excluding the construction period of the stores from the straight-line rent calculation. The Company has corrected its accounting policy to begin the lease term at the possession date. The Company has restated its previously reported financial statements to correct its accounting to include construction periods in store operating leases.

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In addition, under FASB Technical Bulletin 88-1, *Issues Relating to Accounting for Leases*, lease incentives such as tenant allowances received from the landlord to cover construction costs incurred by the Company should be reflected as a deferred liability, amortized over the term of the lease and reflected as a reduction to rent expense. The Company had previously classified tenant allowances as a reduction to property and equipment instead of as a deferred lease credit on the Consolidated Balance Sheets. As a result, the Company also amortized the deferred lease credit over the asset life instead of over the lease term and reflected the amortization as a reduction to depreciation expense instead of as a reduction to rent expense and reflected tenant allowances as a reduction of capital expenditures within investing activities instead of a change in operating activities in the Consolidated Statements of Cash Flows. The Company reassessed this accounting policy and has corrected its accounting policy to treat lease incentives received as a deferred liability amortized over the lease term. The Company has also restated the previously reported Consolidated Financial Statements to properly account for tenant allowances.

Subsequent to the issuance of the Company’s fiscal 2003 financial statements, the Company’s management determined that investments in certain mutual funds and company stock associated with a non-qualified deferred compensation plan were incorrectly presented as cash instead of non-current assets and treasury stock on the Consolidated Balance Sheet. Furthermore, the corresponding deferred compensation liability was incorrectly presented as a current liability instead of a non-current liability and the acquisition of treasury stock was incorrectly presented as a component of operating activity instead of financing activity in the Consolidated Statements of Cash Flows.

The Company evaluated the materiality of these corrections on its financial statements and concluded that the incremental impact of these corrections is not material to any quarterly or annual period; however, the cumulative effect of these corrections is material to the fourth quarter of fiscal year 2004. As a result, the Company has recorded the cumulative effect as of fiscal year 2000, and has restated the Consolidated Balance Sheet at January 31, 2004, and the Consolidated Statements of Operations, Shareholders’ Equity and Cash Flows for the years ended January 31, 2004 and February 1, 2003 in this Annual Report on Form 10-K. The Company has restated the quarterly financial information for fiscal year 2002, fiscal year 2003, and the first three quarters of fiscal year 2004 included in this Annual Report on Form 10-K. The Company has restated the applicable financial information for fiscal years 2000, 2001, 2002, and 2003 in Item 6 Selected Financial Data. The Company did not amend its previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the restatement, and the financial statements and related financial information contained in such reports should no longer be relied upon. Throughout this Annual Report on Form 10-K all referenced amounts for prior periods and prior period comparisons reflect the balances and amounts on a restated basis.

The restatement primarily resulted in a decrease to net income of \$1.0 million and \$0.8 million in fiscal years 2003 and 2002, respectively. The restatement did not impact income (loss) from discontinued operations and the related per common share calculations. The cumulative effect of these accounting corrections reduced retained earnings by \$2.8 million at the beginning of fiscal year 2002. Additionally, the restatement resulted in an increase in cash flows provided by operating activities of \$3.9 million and \$7.1 million in fiscal years 2003 and 2002, respectively. Additionally, the restatement resulted in an increase in cash used in investing activities of \$6.5 million and \$7.4 million in fiscal years 2003 and 2002, respectively. See Note 2 (Restatement of Previously Issued Consolidated Financial Statements) to the Consolidated Financial Statements in this Annual Report on Form 10-K for a summary of the effects of these changes on the Consolidated Financial Statements. This Management’s Discussion and Analysis gives effect to these corrections.

Investments in auction rate preferred securities and municipal auction rate securities (collectively, auction rate securities) have been reclassified from cash and cash equivalents to short-term investments on the Consolidated Balance Sheet at January 31, 2004. This reclassification was made because the auction rate securities had stated maturities beyond three months. The amount of auction rate securities included in short-term investments was \$7.5 million at January 31, 2004. There were no auction rate securities at January 29, 2005. The auction rate securities reclassification resulted in an increase of purchases of short-term investments and an increase of net cash used in investing activities of \$7.5 million in the fiscal year 2003 Consolidated Statement of Cash Flows. The auction rate securities resulted in an increase of \$115.1 million in purchases of short-term investments and an increase of \$122.6 million in the redemption of short-term investments in the fiscal year 2004 Consolidated Statement of Cash Flows. The reclassifications had no impact on the Company’s results of operations or financial condition.

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The Company’s inventory of maintenance parts and certain deposits aggregating \$6.1 million have been reclassified from other current assets to other long-term assets on the Consolidated Balance Sheet at January 31, 2004, to reflect the expected use of those assets. Self-insurance reserves in the amount of \$38.2 million have been reclassified from accrued liabilities to other liabilities on the Consolidated Balance Sheet at January 31, 2004, to reflect the projected timing of payments. Deferred income tax assets of \$13.1 million related to these reclassifications have been reclassified from current assets to long-term assets on the Consolidated Balance Sheet at January 31, 2004.

On January 14, 2004, KB Acquisition Corporation and certain affiliated entities (collectively, “KB”) filed for bankruptcy protection pursuant to Chapter 11 of title 11 of the United States Code. KB acquired the KB Toys business from the Company pursuant to a Stock Purchase Agreement dated as of December 7, 2000 (the “KB Stock Purchase Agreement”).

The Company analyzed the information currently available regarding the effect of KB’s bankruptcy filing on the various continuing rights and obligations of the parties to the KB Stock Purchase Agreement, including: a) an outstanding note from Havens Corners Corporation, a subsidiary of KB Acquisition Corporation and a party to the bankruptcy proceedings (“HCC”), to the Company, and an accompanying warrant to acquire common stock of KB Holdings, Inc., the ultimate parent of KB and a party to the bankruptcy proceedings (“KB Holdings”); b) the status of KB’s indemnification obligations to the Company with respect to guarantees of KB store leases by the Company and guarantees (relating to lease and mortgage obligations) for which the Company has indemnification obligations arising out of its 1996 acquisition of the KB Toys business from Melville Corporation (now known as CVS New York, Inc., and together with its subsidiaries “CVS”); and c) the status of the Company’s and KB’s other indemnification obligations to each other with respect to general liability claims, representations and warranties, litigation, taxes, and other payment obligations pursuant to the KB Stock Purchase Agreement. When and to the extent the Company believes that a loss is probable and can be reasonably estimated, the Company records a liability. The Company recorded a \$3.7 million charge (net of tax) in the fourth quarter of fiscal year 2003 associated with the estimated impact of the KB bankruptcy, which was comprised of a \$10.6 million benefit (net of tax) related to the partial charge-off of the HCC Note and KB Warrant (as each is defined below) and a \$14.3 million charge (net of tax) related to KB guarantee obligations. As discussed below, the Company recorded an additional \$6.6 million charge (net of tax) in the third quarter of fiscal year 2004 related to the estimated impact of additional guarantee obligations resulting from the KB bankruptcy.

In connection with the sale of the KB Toys business, the Company received \$258.0 million in cash and a 10-year note from HCC in the aggregate principal amount of \$45.0 million. This note bears interest, on an in-kind basis, at the rate of 8.0% per annum (principal and interest together known as the “HCC Note”). The Company also received a warrant to acquire up to 2.5% of the common stock of KB Holdings for a stated price per share (“KB Warrant”). At the time of the sale (the fourth quarter of fiscal year 2000), the Company evaluated the fair value of the HCC Note received as consideration in the transaction and recorded the HCC Note at its then estimated fair value of \$13.2 million. The estimated fair value of the HCC Note was based on several factors, including fair market evaluations obtained from independent financial advisors at the time of the sale, the Company’s knowledge of the underlying KB Toys business and industry, and the risks inherent in receiving no cash payments until the HCC Note matured in 2010. During fiscal year 2002 and until KB’s 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. As of February 1, 2003 and February 2, 2002, the carrying value of the HCC Note was \$16.1 million. 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’s bankruptcy filing. The Company engaged an independent investment advisory firm to assist the Company in estimating the fair value of the

HCC Note and KB Warrant for both book and tax purposes. As a result, the Company charged off a portion of the HCC Note and wrote down the full value of the KB Warrant resulting in a book value of the HCC Note of \$7.3 million, and accordingly recorded a net charge (before tax) to continuing operations in the fourth quarter of fiscal year 2003 in the amount of \$9.6 million. In addition, as a result of the bankruptcy filing and the partial charge-off, the Company recorded a tax benefit of \$20.2 million in the fourth quarter of fiscal year 2003. A substantial portion of this tax benefit reflects the charge-off of the higher tax basis of the HCC Note. The book value of the HCC Note was \$7.3 million at January 29, 2005, and January 31, 2004. The HCC Note is recorded as a component of long-term assets on the Consolidated Balance Sheets at January 29, 2005, and January 31, 2004.

When the Company acquired the KB Toys business from CVS in May 1996, the Company provided, among other things, an indemnity to CVS with respect to any losses resulting from KB’s failure to pay all monies due and owing under any KB lease or mortgage obligation guaranteed by CVS. The typical form of the CVS guarantee provides that the terms of the underlying lease may be extended, amended, modified or in any way changed without the consent of the guarantor. While the Company controlled the KB Toys business, the Company provided guarantees containing terms similar to the CVS guarantees with respect to a limited number of additional store leases. As part of the KB sale, and in accordance with the terms of the KB Stock Purchase Agreement, KB similarly agreed to indemnify the Company with respect to all lease and mortgage obligations, including those guaranteed by CVS and those guaranteed by the Company. To the Company’s knowledge, the Company has guarantee or indemnification obligations, as of January 29, 2005, with respect to: a) approximately 390 KB store leases; b) two distribution center leases; c) KB’s main office building lease; and d) a first mortgage on a distribution center located in Pittsfield, Massachusetts (the “Pittsfield DC”).

In connection with the bankruptcy, KB is generally required to continue to make lease payments with respect to all non-residential real estate leases until the bankruptcy court approves KB’s decision to reject a lease and KB vacates the leased premises that it rejects. If KB rejects a lease that has been guaranteed by the Company or by CVS, because KB can reject its indemnification obligations to the Company, the Company could be liable for all or a portion of the lease obligations with respect to the rejected leases, subject to many factors, including the landlord’s duty to mitigate, and the validity of the applicable guarantee. On February 25, 2004, the Company announced that KB had rejected 389 store leases, of which the Company believes it has guarantee or indemnification obligations relating to approximately 90. The Company engaged an independent real estate valuation firm to assist in the analysis of the Company’s potential liability with respect to the 90 guaranteed leases. Based upon analysis of the information then available, the Company recorded a charge to discontinued operations for rent and legal expenses in the fourth quarter of fiscal year 2003 in the amount of \$14.3 million (net after a \$9.7 million tax benefit) to reflect its best estimate of this loss contingency.

On October 26, 2004, KB announced its intent to close an additional 141 to 238 underperforming stores and reject those leases by January 31, 2005. At October 30, 2004, the Company believed that KB had rejected approximately 598 store leases and that the Company has guarantee or indemnification obligations relating to approximately 162 of those leases (including 72 resulting from KB’s October 26, 2004, announcement). Using the same methodology to analyze the Company’s potential liability with respect to these additional guaranteed leases, the Company recorded a charge to discontinued operations in the third quarter of fiscal year 2004 in the amount of \$4.9 million (net after a \$3.7 million tax benefit) to reflect its best estimate of this loss contingency. Since October 30, 2004, the Company believes that KB has both rejected a limited number of additional store leases and withdrew its previous rejection of certain other store leases. KB’s actions have resulted in a net increase of approximately 5 store lease rejections (bringing the total rejections to approximately 167), for which the Company believes it has guarantee or indemnification obligations. No additional charges related to the guarantee obligations have been recorded by the Company since October 30, 2004.

On March 10, 2004, the Company announced that it had received notice of a default relating to a first mortgage on the Pittsfield DC. As a result of KB’s bankruptcy filing, the mortgage holder declared an event of default and claimed that the loan had become immediately due and payable (the “Pittsfield DC Note”). The Company was informed that, as of January 14, 2004, the Pittsfield DC Note had an outstanding principal balance of approximately \$6.3 million plus accrued interest of approximately \$21,000. Additionally, the mortgage holder claimed that a make-whole premium of approximately \$1.5 million was also due and

payable. On November 5, 2004, the Company satisfied its indemnity obligation with respect to the Pittsfield DC Note at a cost of \$8.4 million. The Company engaged an independent real estate valuation firm to assist it in the analysis of the Company’s potential loss arising from the indemnification payment related to the Pittsfield DC Note. Based upon analysis of the information then available, the Company recorded a charge to discontinued operations in the third quarter of fiscal year 2004 in the amount of \$1.7 million (net after a \$1.0 million tax benefit) to reflect its best estimate of the difference between the subrogation rights (\$6.1 million) flowing from the indemnification payment and the net realizable value of the Pittsfield DC.

The Company intends to take an active role in limiting its potential liability with respect to KB store lease obligations and the Pittsfield DC Note. The Company is not aware of any additional rejections of the remaining store leases guaranteed by the Company, or a rejection of the two distribution center leases or the lease on KB’s main office building. It is the Company’s belief that both distribution centers have been sublet by KB to unaffiliated third parties and that KB intends to retain the lease on its main office building. In its October 26, 2004, announcement, KB stated that it believed this would be the final round of store closings before its emergence from bankruptcy. Nevertheless, due to the nature of the KB bankruptcy, the Company is unable to determine at this time whether any additional liability will result from the remaining leases guaranteed by the Company or CVS that have not yet been rejected by KB. Moreover, since the typical form of guarantee permits an extension, amendment, modification or other change, the Company is unable to estimate its maximum potential amount of future payments, if any, required to satisfy lease guarantees. In the event additional leases are rejected, any related charge would be to discontinued operations. Management does not believe that such a charge would have a material adverse effect on the Company’s financial condition, results of continuing operations, or liquidity.

In addition to including KB’s indemnity of the Company with respect to lease and mortgage obligations, the KB Stock Purchase Agreement contains mutual indemnifications of KB by the Company and of the Company by KB. 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 for tax losses generally related to the periods prior to the Company’s sale of KB. The Company continues to assess the effect of the KB 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. At this time, management does not believe that such a charge would have a material adverse effect on the Company’s financial condition, results of continuing operations, or liquidity.

The following are the components of discontinued operations:

	Fiscal Year		
	2004	2003	2002
(In thousands)			
Loss on disposal of KB Toys business, net of income tax benefit of \$4,672, \$14,691, and \$4,000 in fiscal years 2004, 2003, and 2002, respectively.	\$(6,648)	\$(9,720)	\$—

During fiscal year 2003, the Internal Revenue Service (“IRS”) concluded its field examination of the Company’s consolidated income tax returns for the fiscal year 1997 through fiscal year 2000 cycle. The consolidated income tax returns for that cycle included the KB Toys business. In the fourth quarter of fiscal year 2003, the fiscal year 1997 through fiscal year 2000 IRS examination cycle was substantially resolved when the congressional Joint Committee on Taxation found no exception to the IRS field examination report (for further discussion, refer to Note 6 (Income Taxes) to the Consolidated Financial Statements in this Annual Report on Form 10-K). The Company has also received substantial resolution with the Appeals Division of the IRS related to a KB income tax matter for fiscal year 1996 in conjunction with the MacFrugal’s Bargains Close-outs, Inc. appeal (for further discussion, refer to Note 6 (Income Taxes) to the Consolidated Financial Statements in this Annual Report on Form 10-K). Discontinued operations also 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 state and local non-income tax matters. As a result of the substantial resolution and closure of these items, the Company has reversed previously accrued income

taxes of approximately \$4.7 million, and sales and use taxes of approximately \$1.1 million related to discontinued operations in fiscal year 2003.

On February 9, 2005, the Company commenced a suit in the Delaware Chancery Court against certain of the officers, directors and shareholders of KB alleging fraud, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, unjust enrichment, and civil conspiracy. On March 3, 2005, the United States Bankruptcy Court District of Delaware, finding that litigating the state court action would distract KB’s management and thereby hinder its ability to focus on a successful reorganization, temporarily enjoined the Company’s suit until July 15, 2005, assuming KB or the Official Committee of Unsecured Creditors propose a confirmable plan of reorganization by May 15, 2005. The Company intends to vigorously prosecute this action to recover its damages arising from defendants’ actions resulting in KB’s inability to satisfy the HCC Note.

Fiscal Year 2004 Compared To Fiscal Year 2003

Net Sales

Net sales increased 4.8% to \$4,375.1 million in fiscal year 2004 compared to \$4,174.4 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 for fiscal year 2004 were calculated using all

stores that were open for at least two fiscal years as of the beginning of 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 which has an estimated average household income of \$40,000.

The Company believes that future sales growth is dependent upon an increase in the number of customer transactions as well as an increase in the dollar value of the average basket. 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 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:

(\$ in thousands)	Fiscal Year				Change	
	2004		2003			
Consumables	\$1,301,515	29.7%	\$1,251,651	30.0%	\$ 49,864	4.0%
Home	1,244,028	28.4	1,139,887	27.3	104,141	9.1
Seasonal and toys	852,967	19.5	859,597	20.6	(6,630)	(0.8)
Other	976,562	22.4	923,248	22.1	53,314	5.8
Net sales	<u>\$4,375,072</u>	<u>100.0%</u>	<u>\$4,174,383</u>	<u>100.0%</u>	<u>\$200,689</u>	<u>4.8%</u>

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.

Gross Profit

Gross profit increased 1.8% to \$1,777.4 million in fiscal year 2004 compared to \$1,746.4 million in fiscal year 2003. Gross profit as a percentage of net sales was 40.6% in fiscal year 2004 compared to 41.8% in fiscal

year 2003. This gross profit rate decline of 120 basis points was primarily due to lower sales in higher margin merchandise, such as 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 5.4% to \$1,605.7 million in fiscal year 2004 compared to \$1,523.9 million in fiscal year 2003. Selling and administrative expenses as a percentage of net sales were 36.7% 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 \$81.8 million increase was primarily attributable to increased store payroll costs of \$24.1 million, increased distribution and transportation costs of \$20.1 million, and increased store occupancy-related costs including rent and utilities of \$27.3 million.

Outbound distribution and transportation costs, which were included in selling and administrative expenses (refer to Note 1 (Summary of Significant Accounting Policies) to the Consolidated Financial Statements in this Annual Report on Form 10-K), increased 9.6% to \$229.8 million in fiscal year 2004 compared to \$209.7 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 \$104.2 million compared to \$93.7 million for fiscal year 2003. The \$10.5 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 termination of

the Senior Notes and the \$300.0 million secured revolving credit agreement entered in 2001 (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%, with the variable rate 2004 Credit Agreement. The weighted-average interest rate of the outstanding loans under the 2004 Credit Agreement at January 29, 2005, was 3.2%.

Interest Income

Interest income was \$0.6 million in fiscal year 2004 compared to \$1.1 million for fiscal year 2003. Interest income was generated by interest earned on cash equivalents and short-term investments.

Income Taxes

The effective income tax rate of the continuing operations of the Company was 29.8% for fiscal year 2004 compared to 20.7% 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. The Company anticipates the fiscal year 2005 effective income tax rate to fall within a range of 35.6% to 38.6%. The fiscal year 2005 estimate does not reflect the effect of 2005 state income tax legislation recently passed (or likely to soon be passed) as the Company is in the process of analyzing the full impact of the new legislation.

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.

During the third quarter of fiscal year 2004, the Company filed protective refund claims for its fiscal years 1994 through 2000 based on this ruling. Claims for fiscal years 2001 through 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

For a discussion of the discontinued operations, refer to Note 3 (KB Toys Matters) to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Fiscal Year 2003 Compared To Fiscal Year 2002

Net Sales

Net sales for fiscal year 2003 increased 7.9% to \$4,174.4 million compared to net sales of \$3,868.6 million for fiscal year 2002. This increase resulted from a comparable store sales increase of 3.4%, with the remaining increase driven primarily by sales from stores opened on or after February 4, 2001, offset by store closings. Comparable store sales for fiscal year 2003 were calculated using all stores that were open for at least two fiscal years as of the beginning of fiscal year 2003. The Company attributes its comparable store sales increase of 3.4% to an increase in the dollar value of the average basket of 1.7% and an increase in the number of customer transactions of 1.7%.

The Company believes the increase in the number of customer transactions and the increase in the dollar value of the average basket for fiscal year 2003 resulted from several factors such as the launch of the Company’s first national television advertising campaign covering all 1,430 stores, more productive advertising circulars, the introduction of furniture departments in 157 stores over the prior year, the allocation of additional square footage to 242 furniture departments in existing closeout stores, and improved in-stock levels on everyday basic items.

In terms of product categories, sales growth in fiscal year 2003 was broad based with positive comparable store sales increases across most major categories driven by gains in consumables, furniture, hardlines, and domestics, offset by declines in apparel and home décor.

The following table summarizes comparable store sales, customer transactions, and the value of the average basket for fiscal year 2003 compared to fiscal year 2002:

	Fiscal Year	
	2003	2002
Comparable store sales	3.4%	7.7%
Customer transactions	1.7%	2.8%
Value of the average basket	1.7%	4.9%

Net sales by product category as a percentage of total net sales, and the net sales change in dollars and percentage in fiscal year 2003 compared to fiscal year 2002 were as follows:

(\$ in thousands)	Fiscal Year				Change	
	2003		2002			
Consumables	\$1,251,651	30.0%	\$1,097,401	28.4%	\$154,250	14.1%
Home	1,139,887	27.3	1,061,972	27.5	77,915	7.3
Seasonal and toys	859,597	20.6	822,425	21.3	37,172	4.5
Other	923,248	22.1	886,752	22.8	36,496	4.1
Net sales	<u>\$4,174,383</u>	<u>100.0%</u>	<u>\$3,868,550</u>	<u>100.0%</u>	<u>\$305,833</u>	<u>7.9%</u>

Gross Profit

Gross profit increased \$114.5 million, or 7.0%, in fiscal year 2003 to \$1,746.4 million from \$1,631.9 million in fiscal year 2002. Gross profit as a percentage of net sales was 41.8% in fiscal year 2003 compared to

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42.2% in the previous year. The Company believes the 40 basis point decrease in the gross profit percentage was driven by a reduction of 60 basis points in the initial markup of merchandise due to a combination of better than expected sales in lower markup categories, such as consumables, and increased freight rates related to imported merchandise. Markdown reductions of 20 basis points over the previous year partially offset the decline in initial markup.

Selling and Administrative Expenses

Selling and administrative expenses increased \$122.9 million, or 8.8%, in fiscal year 2003 to \$1,523.9 million from \$1,401.0 million in fiscal year 2002. As a percentage of net sales, selling and administrative expenses increased 30 basis points to 36.5% in fiscal year 2003 from 36.2% in fiscal year 2002.

The 30 basis point increase in the selling and administrative expense rate was primarily attributable to a partial charge-off (23 basis points) of the HCC Note and the write-off of the KB warrant received at the time of the sale of the KB Toys business and a charge (22 basis points) to settle California wage and hour lawsuits (for a further discussion, refer to Note 5 (Commitments and Contingencies) to the Consolidated Financial Statements in this Annual Report on Form 10-K). Excluding these items, the selling and administrative expense rate reduction of 15 basis points was primarily attributable to the leveraging of fixed costs over a higher sales base and a reduced bonus payout, partially offset by the impact of increased outbound distribution and transportation costs and store payroll due to increased carton volume in departments such as consumables which experienced higher sales volume and declining carton values.

Selling and administrative expenses increased over fiscal year 2002 primarily due to an increase in the number of stores; costs associated with higher levels of sales and increased carton volume; national advertising costs; a partial charge-off of the HCC Note and the write-off of the KB warrant; and litigation charges. The \$122.9 million increase was primarily attributable to increased store payroll costs of \$50.0 million, increased outbound distribution and transportation costs of \$22.8 million, increased store occupancy-related costs, including rent and utilities of \$21.3 million, a \$9.9 million increase in advertising costs, a \$9.6 million partial charge-off of the HCC Note and the write-off of the KB warrant; and a \$9.1 million charge for California wage and hour lawsuits.

Outbound distribution and transportation costs, which were included in selling and administrative expenses (refer to Note 1 (Summary of Significant Accounting Policies) to the Consolidated Financial Statements in this Annual Report on Form 10-K), increased 12.2% to \$209.7 million in fiscal year 2003 compared to \$186.9 million in fiscal year 2002. Outbound distribution and transportation expenses as a percentage of net sales were 5.0% in fiscal year 2003 compared to 4.8% in fiscal year 2002. The increase in dollars and rate was principally due to an increase in the number of cartons shipped.

Depreciation Expense

Depreciation expense for fiscal year 2003 was \$93.7 million compared to \$85.7 million for fiscal year 2002. The \$8.0 million increase was due to increased capital spending principally related to new store growth and remodeling of existing stores.

Interest Expense

Interest expense, including the amortization of debt issuance costs, was \$16.4 million for fiscal year 2003 compared to \$21.0 million for fiscal year 2002. As a percentage of net sales, interest expense decreased 10 basis points from 0.5% in fiscal year 2002 to 0.4% in fiscal year 2003. The decrease was primarily due to the fiscal year 2003 capitalization of \$3.7 million of interest related to construction costs for the Durant DC. Interest expense for fiscal years 2003 and 2002 was primarily related to the Senior Notes with maturities ranging from four to six years as well as the amortization of debt issuance costs (for a discussion of these costs, refer to Note 4 (Long-Term Obligations) to the Consolidated Financial Statements in this Annual Report on Form 10-K).

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Interest Income

Interest income increased slightly to \$1.1 million in fiscal year 2003 compared to \$0.8 million for fiscal year 2002.

Income Taxes

The effective income tax rate of the continuing operations of the Company was 20.7% for fiscal year 2003 compared to 39.5% for fiscal year 2002. The rate decrease was primarily related to 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 and the reversal of \$3.1 million of previously accrued federal and state taxes as the result of the substantial resolution and closure of several years of federal and state income tax examinations.

Discontinued Operations

For a discussion of the discontinued operations, refer to Note 3 (KB Toys Matters) to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Capital Resources and Liquidity

Capital Resources

On October 29, 2004, the Company paid all outstanding amounts and terminated all commitments related to the Senior Notes, and repaid all amounts outstanding and terminated all commitments under the 2001 Credit Agreement. Due to the early termination of the Senior Notes and the 2001 Credit Agreement, fiscal year 2004 interest expense included debt prepayment charges of \$8.9 million. The Senior Notes carried a weighted-average yield of 8.2% at the time of termination and ranked pari passu with the 2001 Credit Agreement. The Senior Notes and 2001 Credit Agreement were collateralized by inventories. All security interests in the collateral were released when the Senior Notes and 2001 Credit Agreement were terminated.

Also 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 due 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. The Company was in compliance with its financial covenants at January 29, 2005.

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 29, 2005, was 3.2%. 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 affected by: a) cash inflows such as store cash and other miscellaneous deposits; and b) 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 29, 2005, the total borrowings outstanding under the 2004 Credit Agreement were \$159.2 million, which total amount was comprised of \$129.2 million in revolving credit loans, \$30.0 million in swing loans, and no bid loans. The borrowings outstanding under the 2004 Credit Agreement principally reflect the Company's increased

purchases of merchandise during the third quarter of fiscal year 2004 and those amounts used to terminate the Senior Notes. The borrowings available under the 2004 Credit Agreement, after taking into account the reduction of availability resulting from outstanding letters of credit totaling \$56.2 million, were \$284.6 million at January 29, 2005.

The Company utilizes its credit facility primarily to manage ongoing and seasonal working capital. Due to the termination of the Senior Notes, the Company expects borrowings and letters of credit through the end of May 2005 to range between \$180 million and \$220 million. 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.

Liquidity

The primary sources of liquidity for the Company have been cash flows from operations and, as necessary, borrowings under the 2001 Credit Agreement or the 2004 Credit Agreement, as applicable. At January 29, 2005, working capital was \$622.3 million.

Cash flows from operating activities were \$71.3 million during fiscal year 2004 and resulted primarily from net income of \$23.8 million, depreciation and amortization expense of \$102.0 million, partially offset by an increase in inventories of \$65.4 million over fiscal year 2003. The \$65.4 million increase in inventories was primarily a result of decreased customer traffic and opportunistic closeout purchases.

Cash flows used in investing activities of \$127.8 million in fiscal year 2004, \$177.9 million in fiscal year 2003, and \$104.2 million in fiscal year 2002 were primarily related to capital expenditures of \$135.3 million, \$170.2 million, and \$110.1 million in each of the respective fiscal years. Capital expenditures in fiscal year 2004 were primarily driven by the re-engineering of the Columbus DC, remodeling of existing stores, and new store openings. Capital expenditures in fiscal year 2003 were primarily driven by the construction of the Durant DC, remodeling of existing stores, and new store openings. Capital expenditures in fiscal year 2002 were primarily driven by new store openings, investments in store remodels, and the commencement of the construction of the Durant DC. Capital expenditure requirements in fiscal year 2005 are anticipated to range between \$80 million and \$90 million focused on new store openings, completing the re-engineering project in the Columbus DC, and normal maintenance needs of the Company's distribution network and fleet of over 1,500 existing stores.

Cash flows used in financing activities were \$115.0 million in fiscal year 2004. The \$115.0 million related primarily to repayments of \$1,493.0 million, offset by borrowings of \$1,448.2 million. Of the total borrowings and repayments, \$204.0 million and \$153.3 million were attributable to the early termination of the Senior Notes and the 2001 Credit Agreement, respectively. The Company also used \$75.0 million for the share repurchase program during the second quarter of fiscal year 2004. The remaining borrowings and repayments were a result of activity associated with daily cash needs of the Company.

The Company continues to believe that it has, or, if necessary, has the ability to obtain adequate resources to fund ongoing operating requirements, future capital expenditures, development of new projects, and currently maturing obligations. 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, financial condition, results of operations, or liquidity.

The following table summarizes payments due under the Company's contractual obligations at January 29, 2005:

	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⁾	\$ —	\$ —	\$159,200	\$ —	\$ 159,200
Operating lease obligations ^{(3) (4)}	257,169	426,713	270,542	198,339	1,152,763
Purchase obligations ^{(4) (5)}	721,959	174,830	65,662	157,682	1,120,133
Total contractual obligations ⁽⁶⁾	<u>\$979,128</u>	<u>\$601,543</u>	<u>\$495,404</u>	<u>\$356,021</u>	<u>\$2,432,096</u>

(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 include total borrowings outstanding under the 2004 Credit Agreement, of which the total amount was comprised of \$129.2 million in revolving credit loans, \$30.0 million in swing loans, and no bid loans. 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 \$56.2 million at January 29, 2005. Approximately \$46 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, refer to Note 4 (Long-Term Obligations) to the Consolidated Financial Statements in this Annual Report on Form 10-K.

(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 \$863.6 million. For a discussion of leases, refer to Note 8 (Leases) to the Consolidated Financial Statements in this Annual Report on Form 10-K. 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 \$266.1 million at January 29, 2005. 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 \$23.1 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 \$448.8 million, the entirety of which represents obligations due within one year of January 29, 2005. Purchase obligations also include a commitment for future inventory purchases totaling \$307.3 million at January 29, 2005. 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 \$364.0 million is primarily related to distribution and transportation commitments and future advertising services.

(6) The obligations disclosed in this table are exclusive of the contingent liabilities, guarantees, and indemnities related to KB Toys. For a discussion of the discontinued operations, refer to Note 3 (KB Toys Matters) to the Consolidated Financial Statements in this Annual Report on Form 10-K.

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 and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates.

The Company’s accounting policies and other disclosures required by GAAP are also described in Note 1 (Summary of Significant Accounting Policies) to the Consolidated Financial Statements in this Annual Report on Form 10-K. The items listed below are not intended to be a comprehensive list of all the Company’s accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management’s judgment in the principles’ application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result. The Company has certain critical accounting policies and accounting estimates, which are described below.

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 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. The 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 profit. These assumptions are based on historical experience and current information.

Factors considered in the determination of markdowns include current and anticipated demand, customer preferences, age of the merchandise, and seasonal trends. Permanent markdowns are recorded as a gross profit 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 profit reduction in the period the merchandise is sold.

Shrinkage is estimated as a percentage of sales for the period from the last physical inventory date to the end of the fiscal year. Such estimates are based on experience and the 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 will minimize shrinkage.

Due to the nature of the Company’s purchasing practices for closeout and deeply discounted merchandise, vendors and merchandise suppliers generally do not offer the Company incentives such as slotting fees, cooperative advertising allowances, buy-down agreements, or other forms of rebates that could materially reduce its cost of sales.

Property and Equipment

Property and equipment for the Company’s general office, stores, regional offices, information technology services, and outbound distribution and transportation services are stated at cost. Depreciation and amortization expense are recorded using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful life or the lease term.

The estimated useful 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
Transportation equipment	3–7 years

Capitalized interest was \$0.6 million, \$3.7 million, and \$0.1 million in fiscal years 2004, 2003, and 2002, respectively.

Impairment

The Company has long-lived assets that consist primarily of property and equipment. The Company estimates useful lives on buildings and equipment using assumptions based on historical data and industry trends. Impairment is recorded 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.

Insurance Reserves

The Company is self-insured for certain losses relating to general liability, workers’ compensation, and employee medical benefit claims, and the Company has purchased stop-loss coverage to limit significant exposure in these areas. Accrued insurance liabilities are based on claims filed and estimates of claims incurred but not reported. Such amounts are determined by applying actuarially-based calculations taking into account known trends and projections of future results. Actual claims experience can impact these calculations and, to the extent that subsequent claim costs vary from estimates, future earnings could be impacted and the impact could be material.

Income Taxes

The Company’s income tax accounts reflect estimates of the outcome or settlement of various asserted and unasserted income tax contingencies 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, or expiration of the statute of limitations are reflected in the income tax accounts accordingly.

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 has established a valuation allowance to reduce its net 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.

Pension Liabilities

Pension and other retirement benefits, including all relevant assumptions required by GAAP, are evaluated each year. Due to the technical nature of retirement accounting, outside actuaries are used to provide assistance in calculating the estimated future obligations. Since there are many assumptions used to estimate future retirement benefits, differences between actual future events and prior estimates and assumptions could result in adjustments to pension expense and obligations. Certain actuarial assumptions, such as the discount rate and expected long-term rate of return, have a significant effect on the amounts reported for net periodic pension cost and the related benefit obligations. 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. The discount rate used to determine the net periodic pension cost for fiscal year 2004 was 6.1%. A 0.5% increase in the discount rate would reduce the net periodic pension cost by \$0.2 million. A 0.5% reduction in the discount rate would increase the net periodic pension cost by \$0.4 million.

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. This resulted in the selection of the 8.5% long-term rate of return on assets for fiscal year 2004. A 1.0% increase in the expected long-term rate of return would decrease the net periodic pension cost by \$0.4 million. A 1.0% decrease in the expected long-term rate of return would increase the net periodic pension cost by \$0.4 million.

Commitments and Contingencies

In the ordinary course of its business, the Company is subject to various legal actions and claims. In connection with such actions and claims, the Company must make estimates of potential future legal obligations and liabilities, which requires the use of management's judgment on the outcome of various issues. Management may also use outside legal counsel to assist in the estimating process; however, the ultimate outcome of various legal issues could be materially different from management's estimates and adjustments to income could be required. The assumptions used by management are based on the requirements of FASB, Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*. The Company will record, if material, a liability when it has determined that the occurrence of a loss contingency is probable and the loss amount can be reasonably estimated, and it will disclose the related facts in the notes to its financial statements. If the Company determines that the occurrence of a loss contingency is reasonably possible or that it is probable but the loss cannot be reasonably estimated, the Company will, if material, disclose the nature of the loss contingency and the estimated range of possible loss or include a statement that no estimate of loss can be made. The Company makes these determinations in consultation with its attorneys.

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 based on the Company's prior experience.

Wholesale sales are recognized in accordance with the shipping terms agreed upon in the purchase order. Wholesale sales are predominantly recognized under FOB origin where title and risk of loss pass to the buyer when the merchandise leaves the Company's distribution facility. However, when the shipping terms are FOB destination, recognition of sales revenue is delayed until completion of delivery to the designated location.

The Company recognizes gift card sales revenue 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 liabilities.

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: a) \$25; b) 10% of the merchandise purchase price (exclusive of sales tax); or c) the amounts deposited by the customer. Cash paid by the customers is recorded in accrued liabilities.

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 outbound distribution and transportation costs as selling and administrative expenses. Due to this classification, the Company's gross profit rates may not be comparable to those of other retailers that include outbound distribution and transportation costs in cost of sales.

Selling and Administrative Expenses

The Company includes store expenses (such as payroll and occupancy costs), outbound distribution and transportation costs to the Company's stores, advertising, purchasing, insurance, 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.

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. Deferred incentive rent is reflected in other liabilities. The Company's straight-line rent expense calculation is consistent with GAAP as recently clarified by the Office of the Chief Accountant of the SEC.

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

Discontinued Operations

The reserve for discontinued operations includes management's estimate of the Company's potential liability under its lease and mortgage obligations which have been rejected by KB as part of its bankruptcy proceeding. For a discussion of the discontinued operations, refer to Note 3 (KB Toys Matters) to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payments*. This standard supersedes Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123 (revised 2004) requires the use of the fair value method and eliminates the Company's ability to account for share-based compensation using the intrinsic method prescribed in APB Opinion No. 25, *Accounting for Stock Issued to Employees*, which was

permitted under SFAS No. 123, as originally issued. This standard will apply to all awards granted, modified, cancelled, or repurchased after that date as well as the unvested portion of prior awards. The Company is currently evaluating the provisions of this standard and will begin expensing stock options in fiscal year 2006.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs — an Amendment of Accounting Research Bulletin No. 43, Chapter 4, Inventory Pricing*. This standard provides clarification that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current period charges. In addition, this standard requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities' period charges regardless of whether they meet the criterion of abnormal. This standard is effective for the Company in fiscal year 2006. The Company is evaluating the impact of this standard and does not expect the adoption of this standard to have a material impact on the Company's financial condition, results of operations, or liquidity.

Commitments

For a discussion of commitments, refer to Note 3 (KB Toys Matters), Note 4 (Long-term Obligations), Note 5 (Commitments and Contingencies), and Note 8 (Leases) to the Consolidated Financial Statements in this Annual Report on Form 10-K.

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 29, 2005. The Company does not expect changes in interest rates 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% 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 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 29, 2005, 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 29, 2005, 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 29, 2005, 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 29, 2005, of the Company and our report dated April 18, 2005, expressed an unqualified opinion on those financial statements and financial statement schedule.

DELOITTE & TOUCHE LLP

Dayton, Ohio
April 18, 2005

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 29, 2005 and January 31, 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended January 29, 2005. 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 29, 2005 and January 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 29, 2005, 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.

As discussed in Note 2, the accompanying consolidated financial statements for the years ended January 31, 2004 and February 1, 2003 have been restated.

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 29, 2005, 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 18, 2005, 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

BIG LOTS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(In thousands, except per share amounts)

	Fiscal Year		
	2004	2003 (as restated – see Note 2)	2002 (as restated – see Note 2)
Net sales	\$ 4,375,072	\$ 4,174,383	\$ 3,868,550
Cost of sales	2,597,635	2,428,024	2,236,633
Gross profit	1,777,437	1,746,359	1,631,917
Selling and administrative expenses	1,605,673	1,523,913	1,400,986
Depreciation expense	104,239	93,703	85,690
Operating profit	67,525	128,743	145,241
Interest expense	24,845	16,443	20,954
Interest income	(618)	(1,061)	(843)
Income from continuing operations before income taxes	43,298	113,361	125,130
Income tax expense	12,887	23,421	49,397
Income from continuing operations	30,411	89,940	75,733
Loss from discontinued operations	(6,648)	(9,720)	—
Net income	\$ 23,763	\$ 80,220	\$ 75,733
Income (loss) per common share — basic:			
Continuing operations	\$ 0.27	\$ 0.77	\$ 0.65
Discontinued operations	(0.06)	(0.08)	—
	\$ 0.21	\$ 0.69	\$ 0.65
Income (loss) per common share — diluted:			
Continuing operations	\$ 0.27	\$ 0.77	\$ 0.65
Discontinued operations	(0.06)	(0.09)	—
	\$ 0.21	\$ 0.68	\$ 0.65

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 29, 2005	January 31, 2004 (as restated – see Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,521	\$ 174,003
Short-term investments	—	7,500
Inventories	895,016	829,569
Deferred income taxes	73,845	65,779
Other current assets	63,400	57,452
Total current assets	1,034,782	1,134,303
Property and equipment — net	648,741	621,998
Deferred income taxes	12,820	20,060
Other assets	37,241	24,182
Total assets	\$1,733,584	\$1,800,543
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 149,777	\$ 161,884
Accrued liabilities	262,736	253,799
Total current liabilities	412,513	415,683

Long-term obligations	159,200	204,000
Other liabilities	86,381	72,081
Commitments and contingencies		
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 and 116,927 shares, respectively; outstanding 112,780 shares and 116,594 shares, respectively	1,175	1,169
Treasury shares — 4,715 shares and 333 shares, respectively, at cost	(64,029)	(2,735)
Unearned compensation	(1,814)	—
Additional paid-in capital	472,790	466,740
Retained earnings	667,368	643,605
Total shareholders' equity	1,075,490	1,108,779
Total liabilities and shareholders' equity	<u>\$1,733,584</u>	<u>\$1,800,543</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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BIG LOTS, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
(In thousands)

	Common		Treasury		Unearned Compensation	Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance — February 2, 2002 (as previously reported)	114,398	\$1,144	—	\$ —	\$ —	\$435,970	\$490,419	\$ 927,533
Prior period adjustment (see Note 2)	(274)	—	274	\$ (2,233)	—	—	(2,767)	(5,000)
Balance — February 2, 2002 (as restated — see Note 2)	114,124	1,144	274	(2,233)	—	435,970	487,652	922,533
Net income	—	—	—	—	—	—	75,733	75,733
Exercise of stock options and related tax effects	1,323	13	—	—	—	17,436	—	17,449
Employee benefits paid with common shares	444	5	—	—	—	4,637	—	4,642
Treasury shares acquired for deferred compensation plan	(47)	—	47	(269)	—	—	—	(269)
Balance — February 1, 2003 (as restated — see Note 2)	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
Employee benefits paid with common shares	435	4	—	—	—	4,561	—	4,565
Treasury shares acquired for deferred compensation plan	(12)	—	12	(233)	—	—	—	(233)
Balance — January 31, 2004 (as restated — see Note 2)	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
Employee benefits paid with common shares	316	3	—	—	—	4,764	—	4,767
Purchases of common shares	(5,427)	—	5,427	(75,000)	—	—	—	(75,000)
Treasury shares used for deferred compensation plan	74	—	(74)	216	—	—	—	216
Treasury share issuances for stock options	799	—	(799)	11,113	—	—	—	11,113
Treasury share issuances for restricted shares	172	—	(172)	2,377	(1,866)	(511)	—	—
Earned compensation on restricted shares	—	—	—	—	52	—	—	52
Balance — January 29, 2005	<u>112,780</u>	<u>\$1,175</u>	<u>4,715</u>	<u>\$(64,029)</u>	<u>\$ (1,814)</u>	<u>\$472,790</u>	<u>\$667,368</u>	<u>\$1,075,490</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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BIG LOTS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

	Fiscal Year		
	2004	2003 (as restated – see Note 2)	2002 (as restated – see Note 2)
Operating activities:			
Net income	\$ 23,763	\$ 80,220	\$ 75,733

Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operations	6,648	9,720	—
Depreciation and amortization expense	101,969	92,407	85,840
Deferred income taxes	(826)	(4,471)	49,434
Loss on sale of equipment	4,063	2,471	1,056
Employee benefits paid with common shares	4,767	4,565	4,642
Partial charge-off of HCC Note and write-off of KB warrant	—	9,598	—
Other	908	435	1,362
Change in assets and liabilities, excluding the effect of discontinued operations	(70,031)	(6,126)	12,322
Net cash provided by operating activities	71,261	188,819	230,389
Investing activities:			
Capital expenditures	(135,291)	(170,175)	(110,110)
Purchase of short-term investments	(115,125)	(7,500)	—
Redemption of short-term investments	122,625	—	—
Cash proceeds from sale of equipment	245	108	2,271
Other	(210)	(324)	3,667
Net cash used in investing activities	(127,756)	(177,891)	(104,172)
Financing activities:			
Proceeds from long-term obligations	1,448,200	305,000	448,800
Payment of long-term obligations	(1,493,000)	(305,000)	(448,800)
Proceeds from the exercise of stock options	12,008	3,704	16,087
Payment for KB Toys subrogation receivable	(6,100)	—	—
Payment for treasury shares acquired	(75,000)	—	—
Treasury shares used (acquired) for deferred compensation plan	216	(233)	(269)
Deferred bank and bond fees	(1,311)	(460)	(4,466)
Net cash (used in) provided by financing activities	(114,987)	3,011	11,352
(Decrease) increase in cash and cash equivalents	(171,482)	13,939	137,569
Cash and cash equivalents:			
Beginning of year	174,003	160,064	22,495
End of year	\$ 2,521	\$ 174,003	\$ 160,064
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 26,140	\$ 17,383	\$ 17,399
Cash paid for income taxes (excluding refunds)	\$ 23,314	\$ 45,213	\$ 39,066

The accompanying Notes are an integral part of these Consolidated Financial Statements.

BIG LOTS, INC. AND SUBSIDIARIES

Notes to 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 29, 2005, the Company operated a total of 1,502 stores in 46 states with 1,459 stores under the name Big Lots and 43 stores under the name Big Lots Furniture. The Company’s goal is to build upon its leadership position in broadline closeout retailing by expanding its market presence in both existing and new markets. The Company’s Web site is located at www.biglots.com. Wholesale operations are conducted through Big Lots Wholesale, Consolidated International, Wisconsin Toy, and with online sales at www.biglotswholesale.com. The contents of the Company’s Web sites are not part of this report.

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 2004, 2003 (as restated), and 2002 (as restated) were comprised of 52 weeks.

Segment Reporting

The Company manages its business based on one segment, broadline closeout retailing. At January 29, 2005 and January 31, 2004, all of the Company’s operations were located within the United States of America. The following data is presented in accordance with the Financial Accounting Standards Board (“FASB”), Statement of Financial Accounting Standards (“SFAS”) No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

	Fiscal Year		
	2004	2003	2002
<i>(In thousands)</i>			
Consumables	\$1,301,515	\$1,251,651	\$1,097,401

Home	1,244,028	1,139,887	1,061,972
Seasonal and toys	852,967	859,597	822,425
Other	976,562	923,248	886,752
Net sales	<u>\$4,375,072</u>	<u>\$4,174,383</u>	<u>\$3,868,550</u>

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.

Basis of Presentation

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and include all the accounts of the Company and all of its subsidiaries. All significant intercompany transactions have been eliminated.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates 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.

BIG LOTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1 — Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments which are unrestricted to withdrawal or use and which have an original maturity of three months or less. Cash equivalents are stated at cost, which approximates market value.

Short-term Investments

Short-term investments consist of investment-grade instruments, including auction rate preferred securities and municipal auction rate securities where the intended holding period exceeds three months. The amount of auction rate preferred securities included in short-term investments was \$7.5 million at January 31, 2004. At January 31, 2004, the short-term investments were classified as available for sale. The difference between cost and fair market value was not significant. There were no auction rate preferred securities or invested funds at January 29, 2005.

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 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. The 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 profit. These assumptions are based on historical experience and current information.

Factors considered in the determination of markdowns include current and anticipated demand, customer preferences, age of the merchandise, and seasonal trends. Permanent markdowns are recorded as a gross profit 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 profit reduction in the period the merchandise is sold.

Shrinkage is estimated as a percentage of sales for the period from the last physical inventory date to the end of the fiscal year. Such estimates are based on experience and the 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 will minimize shrinkage.

Due to the nature of the Company's purchasing practices for closeout and deeply discounted merchandise, vendors and merchandise suppliers generally do not offer the Company incentives such as slotting fees, cooperative advertising allowances, buy-down agreements, or other forms of rebates that could materially reduce its cost of sales.

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

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 1 — Summary of Significant Accounting Policies (Continued)

management projections for future periods. The value of the Company's intangible assets was \$0.79 million and \$0.55 million at January 29, 2005 and January 31, 2004, respectively. The related accumulated amortization was \$0.08 million and \$0.04 million at January 29, 2005 and January 31, 2004, respectively.

Property and Equipment

Property and equipment for the Company's general office, stores, regional offices, information technology services, and outbound distribution and transportation services are stated at cost. Depreciation and amortization expense are recorded using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful life or the lease term.

The estimated useful 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
Transportation equipment	3–7 years

Capitalized interest was \$0.6 million, \$3.7 million, and \$0.1 million in fiscal years 2004, 2003, and 2002, respectively.

Impairment

The Company has long-lived assets that consist primarily of property and equipment. The Company estimates useful lives on buildings and equipment using assumptions based on historical data and industry trends. Impairment is recorded 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.

Computer Software Costs

The Company capitalizes certain computer software costs after the application development stage has been established. Capitalized computer software costs are depreciated using the straight-line method over five years. The net book value of computer software costs was \$14.2 million and \$12.8 million at January 29, 2005 and January 31, 2004, respectively.

Stock Options

The Company measures compensation cost for stock options issued to employees and directors using the intrinsic value-based method of accounting in accordance with Accounting Principles Board ("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 this standard, continues to apply the recognition and measurement principles of APB No. 25, *Accounting for Stock Issued to Employees*, to its stock options and other stock-based employee compensation awards.

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 1 — Summary of Significant Accounting Policies (Continued)

The following table presents the compensation cost of the Company's stock options using the fair value method:

	Fiscal Year		
	2004	2003	2002
<i>(In thousands, except per share amounts)</i>			
Net income:			
As reported	\$23,763	\$80,220	\$75,733
Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effect	(3,604)	(6,034)	(5,055)
Pro forma	\$20,159	\$74,186	\$70,678
Income per common share — basic:			
As reported	\$ 0.21	\$ 0.69	\$ 0.65
Pro forma	\$ 0.18	\$ 0.64	\$ 0.61
Income per common share — diluted:			
As reported	\$ 0.21	\$ 0.68	\$ 0.65

Income Taxes

The Company’s income tax accounts reflect estimates of the outcome or settlement of various asserted and unasserted income tax contingencies 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, or expiration of the statute of limitations are reflected in the income tax accounts accordingly.

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 has established a valuation allowance to reduce its net 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.

Pension Liabilities

Pension and other retirement benefits, including all relevant assumptions required by GAAP, are evaluated each year. Due to the technical nature of retirement accounting, outside actuaries are used to provide assistance in calculating the estimated future obligations. Since there are many assumptions used to estimate future retirement benefits, differences between actual future events and prior estimates and assumptions could result in adjustments to pension expense and obligations. Certain actuarial assumptions, such as the discount rate and expected long-term rate of return, have a significant effect on the amounts reported for net periodic pension cost and the related benefit obligations. 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

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 1 — Summary of Significant Accounting Policies (Continued)

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. The discount rate used to determine the net periodic pension cost for fiscal year 2004 was 6.1%. A 0.5% increase in the discount rate would reduce the net periodic pension cost by \$0.2 million. A 0.5% reduction in the discount rate would increase the net periodic pension cost by \$0.4 million.

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. This resulted in the selection of the 8.5% long-term rate of return on assets for fiscal year 2004. A 1.0% increase in the expected long-term rate of return would decrease the net periodic pension cost by \$0.4 million. A 1.0% decrease in the expected long-term rate of return would increase the net periodic pension cost by \$0.4 million.

Insurance Reserves

The Company is self-insured for certain losses relating to general liability, workers’ compensation, and employee medical benefit claims, and the Company has purchased stop-loss coverage to limit significant exposure in these areas. Accrued insurance liabilities are based on claims filed and estimates of claims incurred but not reported. Such amounts are determined by applying actuarially-based calculations taking into account known trends and projections of future results. Actual claims experience can impact these calculations and, to the extent that subsequent claim costs vary from estimates, future earnings could be impacted and the impact could be material.

Fair Value

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 short-term investments approximates fair value since the interest and dividend rates are variable and approximate current market rates. The fair value of the long-term obligations was estimated based on the quoted market prices for the sale of similar issues or on the current rates offered to the Company for obligations of the same remaining maturities. The estimated fair value of the Company’s long-term obligations at January 31, 2004 was \$218.0 million compared to the carrying value of \$204.0 million. The carrying value of the Company’s long-term obligations at January 29, 2005, approximates fair value since the interest rates are variable and approximate current market rates.

Commitments and Contingencies

In the ordinary course of its business, the Company is subject to various legal actions and claims. In connection with such actions and claims, the Company must make estimates of potential future legal obligations and liabilities, which requires the use of management’s judgment on the outcome of various issues. Management may also use outside legal counsel to assist in the estimating process; however, the ultimate outcome of various legal issues could be materially different from management’s estimates and adjustments to income could be required. The assumptions used by management are based on the requirements of SFAS No. 5, *Accounting for Contingencies*. The Company will record, if material, a liability when it has determined that the occurrence of a loss contingency is probable and the loss amount can be reasonably estimated, and it will disclose the related facts in the notes to its financial statements. If the Company determines that the occurrence of a loss contingency is reasonably possible or that it is probable but the loss cannot be reasonably estimated, the Company will, if material,

disclose the nature of the loss contingency and the estimated range of possible loss or include a statement that no estimate of loss can be made. The Company makes these determinations in consultation with its attorneys.

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 1 — Summary of Significant Accounting Policies (Continued)

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 based on the Company's prior experience.

Wholesale sales are recognized in accordance with the shipping terms agreed upon on the purchase order. Wholesale sales are predominantly recognized under free on board ("FOB") origin where title and risk of loss pass to the buyer when the merchandise leaves the Company's distribution facility. However, when the shipping terms are FOB destination, recognition of sales revenue is delayed until completion of delivery to the designated location.

The Company recognizes gift card sales revenue 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 liabilities.

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: a) \$25; b) 10% of the merchandise purchase price (exclusive of sales tax); or c) the amounts deposited by the customer. Cash paid by the customers is recorded in accrued liabilities.

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 outbound distribution and transportation costs as selling and administrative expenses. Due to this classification, the Company's gross profit rates may not be comparable to those of other retailers that include outbound distribution and transportation costs in cost of sales.

Selling and Administrative Expenses

The Company includes store expenses (such as payroll and occupancy costs), outbound distribution and transportation costs to the Company's stores, advertising, purchasing, insurance, 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 were \$229.8 million, \$209.7 million, and \$186.9 million for fiscal years 2004, 2003, and 2002, 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

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 1 — Summary of Significant Accounting Policies (Continued)

tenant allowances, which are recorded in deferred incentive rent and are amortized as a reduction to rent expense over the term of the lease. Deferred incentive rent is reflected in other liabilities.

Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are 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 and consist primarily of print and television advertisements. Advertising expenditures were \$102.4 million, \$106.9 million, and \$97.1 million for fiscal years 2004, 2003, and 2002, respectively.

Earnings per Share

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

Store Pre-opening Costs

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

Discontinued Operations

The reserve for discontinued operations includes management's estimate of the Company's potential liability under its lease and mortgage obligations which have been rejected by KB Acquisition Corporation and certain affiliated entities (collectively, "KB") as part of its bankruptcy proceeding. For a discussion of the discontinued operations, refer to Note 3 (KB Toys Matters) to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on the Company's financial condition or results of operations.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payments*. This standard supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123 (revised 2004) requires the use of the fair value method and eliminates the Company's ability to account for share-based compensation using the intrinsic method prescribed in APB Opinion No. 25, *Accounting for Stock Issued to Employees*, which was permitted under SFAS No. 123, as originally issued. This standard will apply to all awards granted, modified, cancelled, or repurchased after that date as well as the unvested portion of prior awards. The Company is currently evaluating the provisions of this standard and will begin expensing stock options in fiscal year 2006.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs — an Amendment of Accounting Research Bulletin No. 43, Chapter 4, Inventory Pricing*. This standard provides clarification that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current period charges. In addition, this standard requires that allocation of fixed production overhead to the costs of

BIG LOTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1 — Summary of Significant Accounting Policies (Continued)

conversion be based on the normal capacity of the production facilities' period charges regardless of whether they meet the criterion of abnormal. This standard is effective for the Company in fiscal year 2006. The Company is evaluating the impact of this standard and does not expect the adoption of this standard to have a material impact on the Company's financial condition, results of operations, or liquidity.

Note 2 — Restatement of Previously Issued Consolidated Financial Statements

In light of views expressed by the Office of the Chief Accountant of the Securities and Exchange Commission ("SEC") on February 7, 2005, the Company reviewed its accounting practices for operating leases.

Under the requirements of the FASB Technical Bulletin 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*, rent expense should be amortized on a straight-line basis over the term of the lease. In prior periods, the Company had determined that the term of the lease began on the earlier of the commencement date of the lease or the store opening date, rather than at the time the Company took physical possession of the property to start construction of leasehold improvements. This had the effect of excluding the construction period of the stores from the straight-line rent calculation. The Company has corrected its accounting policy to begin the lease term at the possession date. The Company has restated its previously reported financial statements to correct its accounting to include construction periods in store operating leases.

In addition, under FASB Technical Bulletin 88-1, *Issues Relating to Accounting for Leases*, lease incentives such as tenant allowances received from the landlord to cover construction costs incurred by the Company should be reflected as a deferred liability, amortized over the term of the lease and reflected as a reduction to rent expense. The Company had previously classified tenant allowances as a reduction to property and equipment instead of as a deferred lease credit on the Consolidated Balance Sheets. As a result, the Company also amortized the deferred lease credit over the asset life instead of over the lease term and reflected the amortization as a reduction to depreciation expense instead of as a reduction to rent expense and reflected tenant allowances as a reduction of capital expenditures within investing activities instead of a change in operating activities in the Consolidated Statements of Cash Flows. The Company reassessed this accounting policy and has corrected its accounting policy to treat lease incentives received as a deferred liability amortized over the lease term. The Company has also restated the previously reported Consolidated Financial Statements to properly account for tenant allowances.

Subsequent to the issuance of the Company's fiscal 2003 financial statements, the Company's management determined that investments in certain mutual funds and company stock associated with a non-qualified deferred compensation plan were incorrectly presented as cash instead of non-current assets and treasury stock on the Consolidated Balance Sheet. Furthermore, the corresponding deferred compensation liability was incorrectly presented as a current liability instead of a

non-current liability and the acquisition of treasury stock was incorrectly presented as a component of operating activity instead of financing activity in the Consolidated Statements of Cash Flows.

The Company evaluated the materiality of these corrections on its financial statements and concluded that the incremental impact of these corrections is not material to any quarterly or annual period; however, the cumulative effect of these corrections is material to the fourth quarter of fiscal year 2004. As a result, the Company has recorded the cumulative effect as of fiscal year 2000, and has restated the Consolidated Balance Sheet at January 31, 2004, and the Consolidated Statements of Operations, Shareholders' Equity and Cash Flows for the years ended January 31, 2004 and February 1, 2003 in this Annual Report on Form 10-K. The Company has restated the quarterly financial information for fiscal year 2003, and the first three quarters of fiscal year 2004 included in this Annual Report on Form 10-K.

The restatement primarily resulted in a decrease to net income of \$1.0 million and \$0.8 million in fiscal years 2003 and 2002, respectively. The restatement did not impact income (loss) from discontinued operations and the related per

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 2 — Restatement of Previously Issued Consolidated Financial Statements (Continued)

common share calculations. The cumulative effect of these accounting corrections reduced retained earnings by \$2.8 million at the beginning of fiscal year 2002. Additionally, the restatement resulted in an increase in cash flows provided by operating activities of \$3.9 million and \$7.1 million in fiscal years 2003 and 2002, respectively. Additionally, the restatement resulted in an increase in cash used in investing activities of \$6.5 million and \$7.4 million in fiscal year 2003 and 2002, respectively.

Investments in auction rate preferred securities and municipal auction rate securities (collectively, auction rate securities) have been reclassified from cash and cash equivalents to short-term investments on the Consolidated Balance Sheet at January 31, 2004. This reclassification was made because the auction rate securities had stated maturities beyond three months. The amount of auction rate securities included in short-term investments was \$7.5 million at January 31, 2004. There were no auction rate securities at January 29, 2005. The auction rate securities reclassification resulted in an increase of purchases of short-term investments and an increase of net cash used in investing activities of \$7.5 million in the fiscal year 2003 Consolidated Statement of Cash Flows. The auction rate securities resulted in an increase of \$115.1 million in purchases of short-term investments and an increase of \$122.6 million in the redemption of short-term investments in the fiscal year 2004 Consolidated Statement of Cash Flows. The reclassifications had no impact on the Company's results of operations or financial condition.

The Company's inventory of maintenance parts and certain deposits aggregating \$6.1 million have been reclassified from other current assets to other long-term assets on the Consolidated Balance Sheet at January 31, 2004, to reflect the expected use of those assets. Self-insurance reserves in the amount of \$38.2 million have been reclassified from accrued liabilities to other liabilities on the Consolidated Balance Sheet at January 31, 2004 to reflect the projected timing of payments. Deferred income tax assets of \$13.1 million related to these reclassifications have been reclassified from current assets to long-term assets on the Consolidated Balance Sheet at January 31, 2004.

The following tables summarize the effect of the restatement adjustments and reclassifications in the Consolidated Financial Statements:

Fiscal Year 2003	As Previously Reported	Adjustments	As Restated
(In thousands, except per share amounts)			
Selling and administrative expenses	\$1,616,031	\$(92,118)	\$1,523,913
Depreciation expense	—	93,703	93,703
Operating profit	130,328	(1,585)	128,743
Income from continuing operations before income taxes	114,946	(1,585)	113,361
Income tax expense	24,051	(630)	23,421
Net income	\$ 81,175	\$ (955)	\$ 80,220
Income (loss) per common share — basic:			
Continuing operations	\$ 0.78	\$ (0.01)	\$ 0.77
Discontinued Operations	(0.08)	—	(0.08)
	\$ 0.70	\$ (0.01)	\$ 0.69
Income (loss) per common share — diluted:			
Continuing operations	\$ 0.78	\$ (0.01)	\$ 0.77
Discontinued Operations	(0.09)	—	(0.09)
	\$ 0.69	\$ (0.01)	\$ 0.68

Note 2 — Restatement of Previously Issued Consolidated Financial Statements (Continued)

<u>Fiscal Year 2002</u>	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
(In thousands, except per share amounts)			
Selling and administrative expenses	\$1,485,265	\$(84,279)	\$1,400,986
Depreciation expense	—	85,690	85,690
Operating profit	146,652	(1,411)	145,241
Income from continuing operations before income taxes	126,541	(1,411)	125,130
Income tax expense	49,984	(587)	49,397
Net income	\$ 76,557	\$ (824)	\$ 75,733
Income (loss) per common share — basic:			
Continuing operations	\$ 0.66	\$ (0.01)	\$ 0.65
Discontinued Operations	—	—	—
	<u>\$ 0.66</u>	<u>\$ (0.01)</u>	<u>\$ 0.65</u>
Income (loss) per common share — diluted:			
Continuing operations	\$ 0.66	\$ (0.01)	\$ 0.65
Discontinued Operations	—	—	—
	<u>\$ 0.66</u>	<u>\$ (0.01)</u>	<u>\$ 0.65</u>

<u>January 31, 2004</u>	<u>As Previously Reported</u>	<u>Reclassifications</u>	<u>Adjustments</u>	<u>As Reclassified and Restated</u>
(In thousands)				
ASSETS				
Cash and cash equivalents	\$ 191,228	\$ (7,500)	\$ (9,725)	\$ 174,003
Short-term investments	—	7,500	—	7,500
Deferred income taxes	82,406	(13,053)	(3,574)	65,779
Other current assets	64,397	(6,053)	(892)	57,452
Total current assets	1,167,600	(19,106)	(14,191)	1,134,303
Property and equipment — net	605,527	—	16,471	621,998
Deferred income taxes	422	13,053	6,585	20,060
Other assets	11,139	6,053	6,990	24,182
Total assets	\$1,784,688	\$ —	\$ 15,855	\$1,800,543
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accrued liabilities	\$ 301,702	\$(38,178)	\$ (9,725)	\$ 253,799
Total current liabilities	463,586	(38,178)	(9,725)	415,683
Other liabilities	1,042	38,178	32,861	72,081
Treasury shares	—	—	(2,735)	(2,735)
Retained earnings	648,151	—	(4,546)	643,605
Total shareholders' equity	1,116,060	—	(7,281)	1,108,779
Total liabilities and shareholders' equity	\$1,784,688	\$ —	\$ 15,855	\$1,800,543

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 2 — Restatement of Previously Issued Consolidated Financial Statements (Continued)

<u>Fiscal Year 2003</u>	<u>As Previously Reported</u>	<u>Reclassification</u>	<u>Adjustments</u>	<u>As Reclassified and Restated</u>
(In thousands)				
Net cash provided by operating activities	\$ 184,910	\$ —	\$ 3,909	\$ 188,819
Net cash used in investing activities	(163,934)	(7,500)	(6,457)	(177,891)
Net cash provided by financing activities	3,244	—	(233)	3,011
Increase (decrease) in cash and cash equivalents	<u>24,220</u>	<u>(7,500)</u>	<u>(2,781)</u>	<u>13,939</u>
Cash and cash equivalents:				
Beginning of year	167,008	—	(6,944)	160,064
End of year	<u>\$ 191,228</u>	<u>\$ (7,500)</u>	<u>\$ (9,725)</u>	<u>\$ 174,003</u>
<u>Fiscal Year 2002</u>	<u>As Previously Reported</u>	<u>Reclassification</u>	<u>Adjustments</u>	<u>As Restated</u>

(In thousands)

Net cash provided by operating activities	\$ 223,321	\$ —	\$ 7,068	\$ 230,389
Net cash used in investing activities	(96,756)	—	(7,416)	(104,172)
Net cash (used in) provided by financing activities	11,621	—	(269)	11,352
Increase (decrease) in cash and cash equivalents	138,186	—	(617)	137,569
Cash and cash equivalents:				
Beginning of year	28,822	—	(6,327)	22,495
End of year	\$ 167,008	\$ —	\$ (6,944)	\$ 160,064

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 3 — KB Toys Matters

On January 14, 2004, KB filed for bankruptcy protection pursuant to Chapter 11 of title 11 of the United States Code. KB acquired the KB Toys business from the Company pursuant to a Stock Purchase Agreement dated as of December 7, 2000 (the “KB Stock Purchase Agreement”).

The Company analyzed the information currently available regarding the effect of KB’s bankruptcy filing on the various continuing rights and obligations of the parties to the KB Stock Purchase Agreement, including: a) an outstanding note from Havens Corners Corporation, a subsidiary of KB Acquisition Corporation and a party to the bankruptcy proceedings (“HCC”), to the Company, and an accompanying warrant to acquire common stock of KB Holdings, Inc., the ultimate parent of KB and a party to the bankruptcy proceedings (“KB Holdings”); b) the status of KB’s indemnification obligations to the Company with respect to guarantees of KB store leases by the Company and guarantees (relating to lease and mortgage obligations) for which the Company has indemnification obligations arising out of its 1996 acquisition of the KB Toys business from Melville Corporation (now known as CVS New York, Inc., and together with its subsidiaries “CVS”); and c) the status of the Company’s and KB’s other indemnification obligations to each other with respect to general liability claims, representations and warranties, litigation, taxes, and other payment obligations pursuant to the KB Stock Purchase Agreement. When and to the extent the Company believes that a loss is probable and can be reasonably estimated, the Company records a liability. The Company recorded a \$3.7 million charge (net of tax) in the fourth quarter of fiscal year 2003 associated with the estimated impact of the KB bankruptcy, which was comprised of a \$10.6 million benefit (net of tax) related to the partial charge-off of the HCC Note and KB Warrant (as each is defined below) and a \$14.3 million charge (net of tax) related to KB guarantee obligations. As discussed below, the Company recorded an additional \$6.6 million charge (net of tax) in the third quarter of fiscal year 2004 related to the estimated impact of additional guarantee obligations resulting from the KB bankruptcy.

In connection with the sale of the KB Toys business, the Company received \$258.0 million in cash and a 10-year note from HCC in the aggregate principal amount of \$45.0 million. This note bears interest, on an in-kind basis, at the rate of 8.0% per annum (principal and interest together known as the “HCC Note”). The Company also received a warrant to acquire up to 2.5% of the common stock of KB Holdings for a stated price per share (“KB Warrant”). At the time of the sale (the fourth quarter of fiscal year 2000), the Company evaluated the fair value of the HCC Note received as consideration in the transaction and recorded the HCC Note at its then estimated fair value of \$13.2 million. The estimated fair value of the HCC Note was based on several factors, including fair market evaluations obtained from independent financial advisors at the time of the sale, the Company’s knowledge of the underlying KB Toys business and industry, and the risks inherent in receiving no cash payments until the HCC Note matured in 2010. During fiscal year 2002 and until KB’s 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. As of February 1, 2003 and February 2, 2002, the carrying value of the HCC Note was \$16.1 million. 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’s bankruptcy filing. The Company engaged an independent investment advisory firm to assist the Company in estimating the fair value of the HCC Note and KB Warrant for both book and tax purposes. As a result, the Company charged off a portion of the HCC Note and wrote down the full value of the KB Warrant resulting in a book value of the HCC Note of \$7.3 million, and accordingly recorded a net charge (before tax) to continuing operations in the fourth quarter of fiscal year 2003 in the amount of \$9.6 million. In addition, as a result of the bankruptcy filing and the partial charge-off, the Company recorded a tax benefit of \$20.2 million in the fourth quarter of fiscal year

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 3 — KB Toys Matters (Continued)

2003. A substantial portion of this tax benefit reflects the charge-off of the higher tax basis of the HCC Note. The book value of the HCC Note was \$7.3 million at January 29, 2005, and January 31, 2004. The HCC Note is recorded as a component of long-term assets on the Consolidated Balance Sheets at January 29, 2005, and January 31, 2004.

When the Company acquired the KB Toys business from CVS in May 1996, the Company provided, among other things, an indemnity to CVS with respect to any losses resulting from KB’s failure to pay all monies due and owing under any KB lease or mortgage obligation guaranteed by CVS. The typical form of the CVS guarantee provides that the terms of the underlying lease may be extended, amended, modified or in any way changed without the consent of the guarantor. While the Company controlled the KB Toys business, the Company provided guarantees containing terms similar to the CVS guarantees with respect to a limited

number of additional store leases. As part of the KB sale, and in accordance with the terms of the KB Stock Purchase Agreement, KB similarly agreed to indemnify the Company with respect to all lease and mortgage obligations, including those guaranteed by CVS and those guaranteed by the Company. To the Company's knowledge, the Company has guarantee or indemnification obligations, as of January 29, 2005, with respect to: a) approximately 390 KB store leases; b) two distribution center leases; c) KB's main office building lease; and d) a first mortgage on a distribution center located in Pittsfield, Massachusetts (the "Pittsfield DC").

In connection with the bankruptcy, KB is generally required to continue to make lease payments with respect to all non-residential real estate leases until the bankruptcy court approves KB's decision to reject a lease and KB vacates the leased premises that it rejects. If KB rejects a lease that has been guaranteed by the Company or by CVS, because KB can reject its indemnification obligations to the Company, the Company could be liable for all or a portion of the lease obligations with respect to the rejected leases, subject to many factors, including the landlord's duty to mitigate, and the validity of the applicable guarantee. On February 25, 2004, the Company announced that KB had rejected 389 store leases, of which the Company believes it has guarantee or indemnification obligations relating to approximately 90. The Company engaged an independent real estate valuation firm to assist in the analysis of the Company's potential liability with respect to the 90 guaranteed leases. Based upon analysis of the information then available, the Company recorded a charge to discontinued operations for rent and legal expenses in the fourth quarter of fiscal year 2003 in the amount of \$14.3 million (net after a \$9.7 million tax benefit) to reflect its best estimate of this loss contingency.

On October 26, 2004, KB announced its intent to close an additional 141 to 238 underperforming stores and reject those leases by January 31, 2005. At October 30, 2004, the Company believed that KB had rejected approximately 598 store leases and that the Company has guarantee or indemnification obligations relating to approximately 162 of those leases (including 72 resulting from KB's October 26, 2004, announcement). Using the same methodology to analyze the Company's potential liability with respect to these additional guaranteed leases, the Company recorded a charge to discontinued operations in the third quarter of fiscal year 2004 in the amount of \$4.9 million (net after a \$3.7 million tax benefit) to reflect its best estimate of this loss contingency. Since October 30, 2004, the Company believes that KB has both rejected a limited number of additional store leases and withdrew its previous rejection of certain other store leases. KB's actions have resulted in a net increase of approximately 5 store lease rejections (bringing the total rejections to approximately 167), for which the Company believes it has guarantee or indemnification obligations. No additional charges related to the guarantee obligations have been recorded by the Company since October 30, 2004.

On March 10, 2004, the Company announced that it had received notice of a default relating to a first mortgage on the Pittsfield DC. As a result of KB's bankruptcy filing, the mortgage holder declared an event of default and claimed that the loan had become immediately due and payable (the "Pittsfield DC Note"). The Company was informed that, as of January 14, 2004, the Pittsfield DC Note had an outstanding principal balance of approximately \$6.3 million plus accrued interest of approximately \$21,000. Additionally, the mortgage holder

BIG LOTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 3 — KB Toys Matters (Continued)

claimed that a make-whole premium of approximately \$1.5 million was also due and payable. On November 5, 2004, the Company satisfied its indemnity obligation with respect to the Pittsfield DC Note at a cost of \$8.4 million. The Company engaged an independent real estate valuation firm to assist it in the analysis of the Company's potential loss arising from the indemnification payment related to the Pittsfield DC Note. Based upon analysis of the information then available, the Company recorded a charge to discontinued operations in the third quarter of fiscal year 2004 in the amount of \$1.7 million (net after a \$1.0 million tax benefit) to reflect its best estimate of the difference between the subrogation rights (\$6.1 million) flowing from the indemnification payment and the net realizable value of the Pittsfield DC.

The Company intends to take an active role in limiting its potential liability with respect to KB store lease obligations and the Pittsfield DC Note. The Company is not aware of any additional rejections of the remaining store leases guaranteed by the Company, or a rejection of the two distribution center leases or the lease on KB's main office building. It is the Company's belief that both distribution centers have been sublet by KB to unaffiliated third parties and that KB intends to retain the lease on its main office building. In its October 26, 2004, announcement, KB stated that it believed this would be the final round of store closings before its emergence from bankruptcy. Nevertheless, due to the nature of the KB bankruptcy, the Company is unable to determine at this time whether any additional liability will result from the remaining leases guaranteed by the Company or CVS that have not yet been rejected by KB. Moreover, since the typical form of guarantee permits an extension, amendment, modification or other change, the Company is unable to estimate its maximum potential amount of future payments, if any, required to satisfy lease guarantees. In the event additional leases are rejected, any related charge would be to discontinued operations. Management does not believe that such a charge would have a material adverse effect on the Company's financial condition, results of continuing operations, or liquidity.

In addition to including KB's indemnity of the Company with respect to lease and mortgage obligations, the KB Stock Purchase Agreement contains mutual indemnifications of KB by the Company and of the Company by KB. 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 for tax losses generally related to the periods prior to the Company's sale of KB. The Company continues to assess the effect of the KB 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. At this time, management does not believe that such a charge would have a material adverse effect on the Company's financial condition, results of continuing operations, or liquidity.

The following are the components of discontinued operations:

	Fiscal Year		
	2004	2003	2002
<i>(In thousands)</i>			
Loss on disposal of KB Toys business, net of income tax benefit of \$4,672, \$14,691, and \$4,000 in fiscal years 2004, 2003, and 2002, respectively	\$(6,648)	\$(9,720)	\$ —

During fiscal year 2003, the Internal Revenue Service (the “IRS”) concluded its field examination of the Company’s consolidated income tax returns for the fiscal year 1997 through fiscal year 2000 cycle. The consolidated income tax returns for that cycle included the KB Toys business. In the fourth quarter of fiscal year 2003, the fiscal year 1997 through fiscal year 2000 IRS examination cycle was substantially resolved when the congressional Joint Committee on Taxation found no exception to the IRS field examination report (refer to Note 6 (Income Taxes) to the Consolidated Financial Statements in this Annual Report on Form 10-K

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 3 — KB Toys Matters (Continued)

for further discussion). The Company has also received substantial resolution with the Appeals Division of the IRS related to a KB income tax matter for fiscal year 1996 in conjunction with the MacFrugal’s Bargains Close-outs, Inc. (“MFI”) appeal (refer to Note 6 (Income Taxes) to the Consolidated Financial Statements in this Annual Report on Form 10-K for further discussion). Discontinued operations also 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 state and local non-income tax matters. As a result of the substantial resolution and closure of these items, the Company has reversed previously accrued income taxes of approximately \$4.7 million, and sales and use taxes of approximately \$1.1 million related to discontinued operations.

On February 9, 2005 the Company commenced a suit in the Delaware Chancery Court against certain of the officers, directors and shareholders of KB alleging fraud, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, unjust enrichment, and civil conspiracy. On March 3, 2005, the United States Bankruptcy Court District of Delaware, finding that litigating the state court action would distract KB’s management and thereby hinder its ability to focus on a successful reorganization, temporarily enjoined the Company’s suit until July 15, 2005, assuming KB or the Official Committee of Unsecured Creditors propose a confirmable plan of reorganization by May 15, 2005. The Company intends to vigorously prosecute this action to recover its damages arising from defendants’ actions resulting in KB’s inability to satisfy the HCC Note.

Note 4 — Long-Term Obligations

On October 29, 2004, the Company paid all outstanding amounts and terminated all commitments related to the \$204.0 million in senior notes privately placed in 2001 (the “Senior Notes”) and repaid all amounts outstanding and terminated all commitments under its \$300.0 million secured revolving credit agreement entered in 2001 (the “2001 Credit Agreement”). Due to the early termination of the Senior Notes and the 2001 Credit Agreement, fiscal year 2004 interest expense included debt prepayment charges of \$8.9 million. The Senior Notes carried a weighted-average yield of 8.2% at the time of termination and ranked pari passu with the 2001 Credit Agreement. The Senior Notes and 2001 Credit Agreement were collateralized by inventories. All security interests in the collateral were released when the Senior Notes and 2001 Credit Agreement were terminated.

Also on October 29, 2004, the Company entered into a \$500.0 million unsecured credit facility with a syndicate of lenders (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 due 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. The Company was in compliance with its financial covenants at January 29, 2005.

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 29, 2005, was 3.2%. The Company typically repays and/or borrows on a daily basis in accordance with the terms of the

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 4 — Long-Term Obligations (Continued)

2004 Credit Agreement. The daily activity is a net result of the Company’s liquidity position, which is affected by: a) cash inflows such as store cash, and other miscellaneous deposits; and b) 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 29, 2005, the total borrowings outstanding under the 2004 Credit Agreement were \$159.2 million, which total amount was comprised of \$129.2 million in revolving credit loans, \$30.0 million in swing loans, and no bid loans. The borrowings outstanding under the 2004 Credit Agreement principally reflect the Company’s increased purchases of merchandise during the third quarter of fiscal year 2004 and those amounts used to terminate the Senior Notes. The borrowings available under the 2004 Credit Agreement, after taking into account the reduction of availability resulting from outstanding letters of credit totaling \$56.2 million, were \$284.6 million at January 29, 2005.

Note 5 — Commitments and Contingencies

The Company is or may be subject to certain commitments and contingencies, including legal proceedings, taxes, insurance, and other matters that are incidental to its ordinary course of business. The Company will, if material, record a liability when it has determined that the occurrence of a loss contingency is probable and the loss can be reasonably estimated, and it will disclose the related facts in the notes to its financial statements. If the Company determines that the occurrence of a loss contingency is reasonably possible or that it is probable but the loss cannot be reasonably estimated, the Company will, if material, disclose the nature of the loss contingency and the estimated range of possible loss or include a statement that no estimate of loss can be made. The Company makes these determinations in consultation with its attorneys.

The Company has purchase obligations for retail merchandise issued in the ordinary course of the Company's business that are valued at \$448.8 million, the entirety of which represents obligations due within one year of January 29, 2005. Purchase obligations also include a commitment for future inventory purchases totaling \$307.3 million at January 29, 2005. The Company is not required to meet any periodic minimum purchase requirements under this commitment. The term of the commitment extends until the purchase requirements of the commitment are satisfied.

The Company is involved in legal actions and claims, including various employment-related matters, arising in the ordinary course of 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, or liquidity.

The Company announced on August 20, 2003, that it reached a preliminary agreement to settle the Company's two California 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. 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. Final court approval of the proposed 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

BIG LOTS, INC. AND SUBSIDIARIES **Notes to Consolidated Financial Statements (Continued)**

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.

On January 14, 2004, KB filed for bankruptcy protection pursuant to Chapter 11 of title 11 of the United States Code. KB acquired the KB Toys business from the Company pursuant to a Stock Purchase Agreement dated as of December 7, 2000. The Company recorded a \$3.7 million charge (net of tax) in the fourth quarter of fiscal year 2003 associated with the estimated impact of the KB bankruptcy, which was comprised of a \$10.6 million benefit (net of tax) related to the partial charge-off of the HCC Note and KB Warrant and a \$14.3 million charge (net of tax) related to KB guarantee obligations. The Company recorded an additional \$6.6 million charge (net of tax) in the third quarter of fiscal year 2004 related to the estimated impact of additional guarantee obligations resulting from the KB bankruptcy. For a discussion of discontinued operations, refer to Note 3 (KB Toys Matters) to the Consolidated Financial Statements in this Annual Report on Form 10-K.

In November 2004, the Company was served a civil complaint wherein it was alleged that the Company has violated 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 as exempt assistant managers. As of January 29, 2005, formal discovery had just begun in each matter and the Company could not 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, or liquidity.

The Company is self-insured for certain losses relating to general liability, workers' compensation, and employee medical benefit claims, 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 described above that relate to the KB 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		
	2004	2003	2002
(In thousands)			

Federal — current	\$ 9,481	\$11,133	\$ (2,310)
State and local — current	(275)	7,612	2,273
Deferred — federal, state and local	3,681	4,676	49,434
Income tax provision	<u>\$12,887</u>	<u>\$23,421</u>	<u>\$49,397</u>

The deferred income tax benefit from discontinued operations was \$4.5 million for fiscal year 2004 and \$9.1 million for fiscal year 2003.

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 6 — Income Taxes (Continued)

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

	Fiscal Year		
	2004	2003	2002
Statutory federal income tax rate	35.0%	35.0%	35.0%
Effect of:			
State and local income taxes, net of federal tax benefit	(1.2)	3.3	1.9
Work opportunity tax credits	(2.9)	(1.2)	(0.6)
Valuation allowance	0.9	(11.3)	3.8
Reversal of previously accrued federal taxes	—	(5.8)	—
Other, net	(2.0)	0.7	(0.6)
Effective income tax rate	<u>29.8%</u>	<u>20.7%</u>	<u>39.5%</u>

The reduction in the valuation allowance in fiscal year 2003 primarily relates to the reversal of the deferred tax asset associated with the HCC Note. The full face value of the HCC Note and 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 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		
	2004	2003	2002
<i>(In thousands)</i>			
Income taxes paid	\$ 23,314	\$45,213	\$ 39,066
Income taxes refunded	(10,183)	(3,692)	(74,758)
Net income taxes paid (refunded)	<u>\$ 13,131</u>	<u>\$41,521</u>	<u>\$(35,692)</u>

In fiscal year 2002, the Company received federal tax refunds of \$62.5 million relating to the carryback of the fiscal year 2000 net operating loss resulting from the sale of the KB Toys business.

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 6 — Income Taxes (Continued)

Deferred taxes reflect the 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 29, 2005	January 31, 2004
<i>(In thousands)</i>		
Deferred tax assets:		
Uniform inventory capitalization	\$ 29,904	\$ 24,175
Workers' compensation and other insurance reserves	29,278	25,135

Depreciation and fixed asset basis differences	16,221	12,815
KB store lease and other discontinued operations contingencies	13,128	9,866
State tax net operating losses, net of federal tax benefit	12,843	12,642
Capital loss carryover	11,045	10,740
Accrued state taxes	10,209	10,278
Accrued rent	8,151	8,085
HCC Note	1,666	1,675
Valuation allowances	(18,116)	(17,411)
Other	41,662	40,739
Total deferred tax assets	<u>155,991</u>	<u>138,739</u>
Deferred tax liabilities:		
Accelerated depreciation and fixed asset basis differences	37,520	25,564
Prepaid expenses	4,862	4,239
Lease construction reimbursements	2,733	2,537
Other	24,211	20,560
Total deferred tax liabilities	<u>69,326</u>	<u>52,900</u>
Net deferred tax assets	<u>\$ 86,665</u>	<u>\$ 85,839</u>

The increase in the valuation allowances from fiscal year 2003 to fiscal year 2004 relates primarily to an increase in the valuation allowances attributable to state income tax net operating loss carryforwards and capital loss carryforwards. 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:

	January 29, 2005	January 31, 2004
(In thousands)		
Current deferred income taxes	\$73,845	\$65,779
Noncurrent deferred income taxes	12,820	20,060
Net deferred tax assets	<u>\$86,665</u>	<u>\$85,839</u>

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 6 — Income Taxes (Continued)

The Company has state net operating loss carryforwards primarily arising from the sale of the KB Toys business of \$19.8 million. The existing state net operating loss carryforwards will expire from beginning in fiscal year 2005 and ending in fiscal year 2023.

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 29, 2005, (amounts are shown net of tax):

(In thousands)		
Federal:		
Net capital loss carryforwards	\$11,045	Expires fiscal year 2005
Foreign tax credits	233	Expires fiscal year 2010
State and local:		
California enterprise zone credits	1,942	No expiration date
Columbus enterprise zone credits	1,755	Expires fiscal year 2005
California alternative minimum tax credits	87	No expiration date
Total income tax loss and credit carryforwards	<u>\$15,062</u>	

The excess foreign tax credit carryforward generated by the KB Toys business was extended to 10 years as a result of the American Jobs Creation Act of 2004.

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 amounted to \$0.9 million, \$0.4 million, and \$1.4 million in fiscal years 2004, 2003, and 2002, respectively.

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.

During fiscal year 2004, the Company also finalized the audit of MFI consolidated income tax returns for years prior to its acquisition by the Company. MFI was acquired 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 2000 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.

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

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, who have reached the age of 21, and who have worked for the Company for more than one year. 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 on or subsequent to 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 the general creditors of the Company.

The investments in 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, invested Pension Plan assets may include the Company’s common shares. At December 31, 2004 and 2003, the Company owned 1,793 and 1,446 shares of Big Lots, Inc. common shares, respectively, held in a separately managed account which mirrored the holdings of a corresponding retail index fund.

Financial futures contracts and financial options contracts can be utilized for purposes of implementing bona fide hedging strategies. All assets must have readily ascertainable market value and be easily marketable. There were no futures contracts outstanding at January 29, 2005.

The equity portfolio will be generally fully invested with minimal emphasis on short-term market fluctuations and broadly diversified. Global equities (foreign) and American Depositary 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.

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

	2004	2003
Equity securities	59.9%	64.0%
Debt securities	30.0	22.4
Cash equivalents	10.1	13.6
Total	<u>100.0%</u>	<u>100.0%</u>

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.

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 7 — Employee Benefit Plans (Continued)

The Company expects no required contributions in fiscal year 2005. Additional discretionary contributions could be made upon further analysis of the Pension Plan during fiscal year 2005.

The Pension Plan and the Supplemental Pension Plan benefits expected to be paid in each of the following ten fiscal years are as follows:

<u>Fiscal Year</u>	
<i>(In thousands)</i>	
2005	\$ 4,944
2006	4,974
2007	5,034
2008	5,312
2009	5,563
2010–2014	31,675
Estimated future benefit payments	<u>\$57,502</u>

The estimated future benefit payments are based on the same assumptions as those used to measure the Company's benefit obligations at January 29, 2005.

The components of net periodic pension cost were comprised of the following:

	<u>Fiscal Year</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<i>(In thousands)</i>			
Service cost — benefits earned in the period	\$ 3,494	\$ 3,125	\$ 3,550
Interest cost on projected benefit obligation	3,274	2,971	2,887
Expected investment return on plan assets	(3,420)	(2,866)	(2,163)
Amortization of prior service cost	135	135	(115)
Amortization of transition obligation	13	13	13
Amortization of actuarial loss	1,508	1,345	1,104
Net periodic pension cost	<u>\$ 5,004</u>	<u>\$ 4,723</u>	<u>\$ 5,276</u>

Weighted-average assumptions used to determine net periodic benefit cost were:

	<u>Fiscal Year</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Discount rate	6.1%	6.8%	7.2%
Rate of increase in compensation levels	4.6%	5.1%	5.5%
Expected long-term rate of return	8.5%	9.0%	9.0%
Measurement date for plan assets and benefit obligations	12/31/03	12/31/02	12/31/01

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 7 — Employee Benefit Plans (Continued)

The following table sets forth certain information for the Pension Plan and the Supplemental Pension Plan at December 31:

	<u>Pension Plan</u>		<u>Supplemental Pension Plan</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<i>(In thousands)</i>				
Projected benefit obligation	\$52,073	\$48,868	\$5,638	\$5,286
Accumulated benefit obligation	41,753	36,126	3,799	2,937
Fair market value of plan assets	52,707	42,601	—	—

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:

	2004	2003
(In thousands)		
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$54,154	\$ 45,360
Service cost	3,494	3,125
Interest cost	3,274	2,971
Benefits paid	(5,256)	(3,913)
Actuarial loss	2,045	6,611
Projected benefit obligation at end of year	<u>\$57,711</u>	<u>\$ 54,154</u>
Change in plan assets:		
Fair market value at beginning of year	\$42,601	\$ 33,524
Actual return on plan assets	3,592	7,297
Employer contribution	11,770	5,693
Benefits paid	(5,256)	(3,913)
Fair market value at end of year	<u>\$52,707</u>	<u>\$ 42,601</u>
Over (under) funded	\$ (5,004)	\$(11,553)
Unrecognized actuarial loss	15,629	15,263
Unrecognized transition obligation	119	133
Unrecognized prior service cost	731	866
Net amount recognized	<u>\$11,475</u>	<u>\$ 4,709</u>
Prepaid benefit cost	\$15,938	\$ 8,683
Accrued benefit cost	(4,463)	(3,974)
Net amount recognized	<u>\$11,475</u>	<u>\$ 4,709</u>

Weighted-average assumptions used to determine benefit obligations for fiscal years 2004 and 2003 were:

	Fiscal Year	
	2004	2003
Discount rate	5.7%	6.1%
Rate of increase in compensation levels	4.0%	4.6%
Measurement date for plan assets and benefit obligations	12/31/04	12/31/03

BIG LOTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 7 — Employee Benefit Plans (Continued)

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 2004, 2003, and 2002, the Company expensed \$5.4 million, \$4.7 million, and \$5.6 million, respectively, for Company matching contributions. In connection with its deferred compensation plan, the Company has purchased mutual fund investments of \$8.5 million and \$7.0 million at January 29, 2005 and January 31, 2004, respectively, which are recorded in noncurrent other assets. These investments were classified as trading securities and were recorded at their fair value. In addition, the Company has purchased company stock in connection with the deferred compensation plan of \$2.5 million and \$2.7 million at January 29, 2005 and January 31, 2004, respectively, which are recorded as treasury stock at cost in the Consolidated Statements of Shareholders' Equity.

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, common area maintenance ("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		
	2004	2003	2002
(In thousands)			
Minimum leases	\$240,930	\$217,085	\$207,578
Contingent leases	936	509	1,527
Total retail store and warehouse lease expense	<u>\$241,866</u>	<u>\$217,594</u>	<u>\$209,105</u>

Fiscal years 2004 and 2003 exclude lease related expenses for the KB Toys business of \$9.3 million and \$24.0 million, respectively. This lease expense was related to KB leases which were rejected during the KB Toys bankruptcy and guaranteed by the Company.

Future minimum commitments for store and warehouse operating leases, excluding real estate taxes, CAM, and property insurance, at January 29, 2005, were as follows:

	Fiscal Year
(In thousands)	
2005	\$192,008
2006	173,258
2007	144,069
2008	117,543
2009	85,034
Thereafter	151,639
Total store and warehouse operating leases	<u>\$863,551</u>

BIG LOTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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 29, 2005, 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		
	2004	2003	2002
(In thousands)			
Weighted-average common shares outstanding:			
Basic	114,281	116,757	115,865
Dilutive effect of stock options and restricted shares	520	496	842
Diluted	<u>114,801</u>	<u>117,253</u>	<u>116,707</u>

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. Such options are excluded as the effect would be antidilutive. In addition, unvested restricted shares representing 172,000 at January 29, 2005, are also excluded from the diluted earnings per share. At the end of fiscal years 2004, 2003, and 2002, stock options outstanding with an exercise price greater than the weighted-average market price were 5.1 million, 6.5 million, and 3.6 million, respectively.

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 expected 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.

Note 10 — Stock Plans

Stock Option Plans

The Big Lots, Inc. 1996 Performance Incentive Plan, as amended (the “1996 Incentive Plan”), authorizes the issuance of incentive and nonqualified stock options, restricted stock, performance units, stock equivalent units, and stock appreciation rights (“SARs”). The Company has not issued performance units, stock equivalent units, or SARs under the 1996 Incentive Plan. The number of common shares initially available for issuance under the 1996 Incentive Plan was 3,125,000 shares plus an additional 1% of the total number of issued shares, including any treasury shares, at the start of the Company’s fiscal year plus shares available, but not issued in previous years of the 1996 Incentive Plan. Total common shares available for use under the 1996 Incentive Plan, combined with any awards of stock options or restricted stock outstanding from all equity compensation plans of the Company, shall not exceed 15% of the total issued and outstanding common shares as of any measurement date. The Nominating and Compensation Committee of the Board of Directors, which is charged with administering the 1996 Incentive Plan, determines the term of each award. Options granted to employees expire on the lesser of: (a) the term set by the Nominating and Compensation Committee, which has historically been 10 years from the grant date; (b) one year following death or disability; or (c) three months following termination. Stock options granted under the 1996 Incentive Plan may be either nonqualified or incentive stock options, and the exercise price may not be less than the fair market value, as defined by the

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 10 — Stock Plans (Continued)

1996 Incentive Plan, of the underlying common shares on the date of award. The award price of a SAR is to be a fixed amount not less than 100% of the fair market value of a common share at the date of award. Unless there is a Change in Effective Control, as defined by the 1996 Incentive Plan, the options vest ratably over a five-year period, 20% of the shares on each anniversary. Upon a Change in Effective Control of the Company, all awards outstanding under the 1996 Incentive Plan 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 Nominating and Compensation Committee of the Board of Directors pursuant to an established formula. Neither the Board of Directors nor the Nominating and Compensation Committee exercise 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: (a) 10 years plus one month; or (b) one year following death or disability; or (c) at the end of the trading window immediately following termination.

The Company changed its fair value option pricing model from the Black-Scholes model to a binomial model for 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. 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 respective option pricing models were as follows:

	Fiscal Year		
	2004	2003	2002
Weighted-average fair value of options granted	\$5.48	\$5.49	\$6.51
Risk-free interest rates	3.1%	3.0%	4.3%
Expected life (years)	5.2	4.8	5.4
Expected volatility	39.0%	58.0%	54.8%
Expected annual forfeiture	3.0%	0.0%	0.0%

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 10 — Stock Plans (Continued)

The following table summarizes information about the Company’s stock option plans at January 29, 2005:

Range of Prices		Options Outstanding			Options Exercisable	
Greater Than	Less Than or Equal	Options Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
\$ 1	\$ 10	146,600	6.8	\$ 9.75	98,300	\$ 9.75
\$ 10	\$ 20	9,285,202	6.7	12.95	3,978,895	12.81
\$ 20	\$ 30	629,688	2.1	26.35	629,688	26.35
\$ 30	\$ 40	519,510	3.1	37.38	519,510	37.38

\$ 40	28,500	2.9	40.80	28,500	40.80
	10,609,500	6.2	\$ 14.97	5,254,893	\$ 16.95

Changes in the status of outstanding options were as follows:

	Options	Price ^(a)
Outstanding at February 2, 2002	10,067,421	\$16.65
Granted	1,931,800	12.36
Exercised	1,323,401	12.16
Forfeited	1,270,727	22.86
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

(a) Weighted-average per share exercise price.

During fiscal year 2004, the Company granted 172,000 restricted common shares with a closing market price of \$10.85 to certain executives. At January 29, 2005, none of the shares have vested. The restricted stock grants were made in accordance with the 1996 Incentive Plan and are subject to a Restricted Stock Award Agreement dated January 6, 2005. The restricted stock grants vest equally over a three-year period and will fully vest if the employee is involuntarily terminated for any reason other than cause before the lapse of such three-year period. The restricted stock 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 involuntarily terminated for cause. The market value of the restricted shares was \$1.9 million and is being amortized on a straight-line basis to expense over the vesting period. The unamortized portion of the restricted stock grant is included as a separate component of shareholders' equity.

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 11 — Additional Data

The following schedule is a summary of other current assets, property and equipment — net, accrued liabilities, and other liabilities:

	January 29, 2005	January 31, 2004
(In thousands)		
Accounts receivable	\$ 13,185	\$ 9,830
Refundable taxes	6,351	10,017
Prepaid expenses and other current assets	43,864	37,605
Other current assets	<u>\$ 63,400</u>	<u>\$ 57,452</u>
	January 29, 2005	January 31, 2004
(In thousands)		
Land and land improvements	\$ 39,913	\$ 39,688
Buildings and leasehold improvements	649,618	602,840
Fixtures and equipment	664,352	604,706
Transportation equipment	22,741	21,912
Construction-in-progress	10,336	14,340
Property and equipment — cost	1,386,960	1,283,486
Less accumulated depreciation and amortization	738,219	661,488
Property and equipment — net	<u>\$ 648,741</u>	<u>\$ 621,998</u>
	January 29, 2005	January 31, 2004
(In thousands)		

Property, payroll, and other taxes	\$ 102,118	\$ 92,486
Insurance reserves	45,255	37,011
Operating expenses	58,792	56,642
KB bankruptcy related reserves	32,498	24,281
Salaries and wages	20,860	29,543
Interest and taxes	3,213	13,836
Accrued liabilities	<u>\$ 262,736</u>	<u>\$ 253,799</u>

	<u>January 29, 2005</u>	<u>January 31, 2004</u>
--	-----------------------------	-----------------------------

(In thousands)

Insurance reserves	\$ 35,955	\$ 29,322
Deferred incentive rent	39,533	32,302
Other long-term liabilities	<u>10,893</u>	<u>10,457</u>
Other liabilities	<u>\$ 86,381</u>	<u>\$ 72,081</u>

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 11 — Additional Data (Continued)

The following analysis supplements changes in assets and liabilities, excluding the effect of discontinued operations, presented in the Consolidated Statements of Cash Flows:

	Fiscal Year		
	2004	2003	2002
(In thousands)			
Inventories	\$(65,447)	\$(53,359)	\$(70,917)
Other current assets	(5,948)	(405)	(8,621)
Other assets	(8,633)	(3,338)	437
Accounts payable	(12,107)	42,071	3,577
Accrued operating expenses	9,548	(18,827)	52,875
Interest and income taxes	(7,259)	(11,837)	22,050
Other liabilities	19,815	39,569	12,921
Change in assets and liabilities, excluding the effect of discontinued operations	<u>\$(70,031)</u>	<u>\$ (6,126)</u>	<u>\$ 12,322</u>

In fiscal year 2004, the \$65.4 million change in inventories was primarily due to decreased customer traffic and opportunistic closeout purchases.

In fiscal year 2003, the \$53.4 million increase in inventories was primarily due to increased receipts of furniture merchandise substantially offset by an increase in accounts payable of \$42.1 million.

In fiscal year 2002, the \$70.9 million change in inventories was primarily due to a prior year inventory charge of \$62.4 million (before tax). The fiscal year 2001 inventory charge represented: a) costs to modify the Company's product assortment and exit certain merchandise categories (\$10.0 million before tax); b) adjustments to the estimated capitalized freight costs related to inbound imported inventories in response to better systems and information (\$24.9 million before tax); and 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 (\$27.5 million before tax). The \$52.9 million change in accrued operating expenses in fiscal year 2002 was primarily due to increased reserves in areas such as insurance, bonus compensation, rent, and real estate taxes. The \$22.1 million change in interest and income taxes in fiscal year 2002 was primarily due to refunds of \$62.5 million from the utilization of the net operating losses and alternative minimum tax, work opportunity, and low income housing credit carryforwards from fiscal year 2000. These refunds were netted against net current tax payments of \$39.1 million.

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 12 — Selected Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for fiscal years 2004 and 2003 have been restated as follows:

Fiscal Year 2004	First	Second	Third	Fourth	Year
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(In thousands, except per share amounts) ^(a)

Net sales	\$1,019,198	\$994,950	\$980,027	\$1,380,897	\$4,375,072
Gross profit	420,270	406,268	396,211	554,688	1,777,437
Income (loss) from continuing operations — as previously reported	6,707	(7,288)	(24,812)	Not reported	Not reported
Income (loss) from continuing operations — restated	6,351	(7,731)	(25,415)	57,206	30,411
Net income (loss) — as previously reported	6,707	(7,288)	(31,460)	Not reported	Not reported
Net income (loss) — restated	6,351	(7,731)	(32,063)	57,206	23,763
Income (loss) per common share — basic, as previously reported:					
Continuing operations	0.06	(0.06)	(0.22)	Not reported	Not reported
Discontinued operations	—	—	(0.06)	Not reported	Not reported
	0.06	(0.06)	(0.28)	—	—
Income (loss) per common share — basic, restated:					
Continuing operations	0.05	(0.07)	(0.23)	0.51	0.27
Discontinued operations	—	—	(0.06)	—	(0.06)
	0.05	(0.07)	(0.29)	0.51	0.21
Income (loss) per common share — diluted, as previously reported:					
Continuing operations	0.06	(0.06)	(0.22)	Not reported	Not reported
Discontinued operations	—	—	(0.06)	Not reported	Not reported
	0.06	(0.06)	(0.28)	—	—
Income (loss) per common share — diluted, restated:					
Continuing operations	0.05	(0.07)	(0.23)	0.51	0.27
Discontinued operations	—	—	(0.06)	—	(0.06)
	<u>\$ 0.05</u>	<u>\$ (0.07)</u>	<u>\$ (0.29)</u>	<u>\$ 0.51</u>	<u>\$ 0.21</u>

BIG LOTS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 12 — Selected Quarterly Financial Data (Unaudited) (Continued)

<u>Fiscal Year 2003</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Year</u>
(In thousands, except per share amounts) ^(a)					
Net sales	\$948,382	\$949,275	\$948,117	\$1,328,609	\$4,174,383
Gross profit	398,112	391,641	392,220	564,386	1,746,359
Income (loss) from continuing operations — as previously reported	10,193	(7,969)	(5,118)	93,789	90,895
Income (loss) from continuing operations — restated	9,881	(8,228)	(5,459)	93,746	89,940
Net income (loss) — as previously reported	10,193	(7,969)	(6,377)	85,328	81,175
Net income (loss) — restated	9,881	(8,228)	(6,718)	85,285	80,220
Income (loss) per common share — basic, as previously reported:					
Continuing operations	0.09	(0.07)	(0.04)	0.80	0.78
Discontinued operations	—	—	(0.01)	(0.07)	(0.08)
	0.09	(0.07)	(0.05)	0.73	0.70
Income (loss) per common share — basic, restated:					
Continuing operations	0.08	(0.07)	(0.05)	0.80	0.77
Discontinued operations	—	—	(0.01)	(0.07)	(0.08)
	0.08	(0.07)	(0.06)	0.73	0.69
Income (loss) per common share — diluted, as previously reported:					
Continuing operations	0.09	(0.07)	(0.04)	0.80	0.78
Discontinued operations	—	—	(0.01)	(0.07)	(0.09)
	0.09	(0.07)	(0.05)	0.73	0.69
Income (loss) per common share — diluted, restated:					
Continuing operations	0.08	(0.07)	(0.05)	0.80	0.77
Discontinued operations	—	—	(0.01)	(0.07)	(0.09)
	<u>\$ 0.08</u>	<u>\$ (0.07)</u>	<u>\$ (0.06)</u>	<u>\$ 0.73</u>	<u>\$ 0.68</u>

(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 Rules 13a-15(e) and 15d-15(e) of 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.

As part of these disclosure controls and procedures, the Company reviewed the appropriateness of its accounting policies. In light of views expressed by the Office of the Chief Accountant of the SEC on February 7, 2005, the Company reviewed its accounting practices for operating leases. As part of this review, the Company initiated a reassessment of its policy related to the accounting for operating leases with scheduled rent increases. The Company determined that its policy should be corrected to recognize minimum rent payments on a straight-line basis beginning with the time the Company takes possession of the premises, instead of the previous policy of using the earlier of the commencement date of the lease or the store opening date. The previously reported financial statements in this Annual Report on Form 10-K have been restated to reflect this correction.

Also as part of this review, the Company initiated a reassessment of its policy that classified tenant allowances as a reduction to property and equipment. The Company determined that its policy should be corrected to treat lease incentives received as a deferred liability amortized over the lease term. The previously reported financial statements included in this Annual Report on Form 10-K have been restated to reflect this correction.

In completing this review, the Company also determined that it should correct the classification of the assets and liabilities of its deferred compensation in fiscal years prior to 2004. Certain mutual funds and company stock purchased in connection with the deferred compensation plan have been restated from cash and cash equivalents to other assets and treasury stock, respectively, and the related liability was corrected from accrued liabilities to other non-current liabilities in the Consolidated Balance Sheet at January 31, 2004 and the acquisition of treasury stock has been corrected to be shown as a component of financing activity rather than operating activity in the Consolidated Statements of Cash Flows.

In reaching its conclusion that the internal control over financial reporting was effective as of January 29, 2005, management carefully considered the facts and circumstances surrounding the restatement of the Company's previously issued financial statements. Management concluded that the restatement was limited to the lease issues and the prior year's classification of the assets and liabilities of a deferred compensation plan discussed above and was not indicative of a broader issue concerning the application of generally accepted accounting principles. Management further concluded that the actual and potential misstatement related to these issues was not material and, accordingly, did not rise to the level of a material weakness.

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 29, 2005. 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 29, 2005.

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

There were no changes in the Company's internal controls over financial reporting that occurred during the 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 2005 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,” “Executive Compensation,” and “Nominating and Compensation Committee Report on Executive Compensation” in the 2005 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

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 2005 Proxy Statement, with respect to 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 2004, 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	
	2004	2003
(In thousands)		
Audit fees	\$1,367	\$436
Audit-related fees ^(a)	120	67
Tax fees ^(b)	114	148
All other fees	—	—
Total fees	<u>\$1,601</u>	<u>\$651</u>

- (a) Principally audits of employee benefit plans, accounting consultation and nonrecurring services related to compliance with the Sarbanes-Oxley Act of 2002.
- (b) Principally tax return preparation, tax planning, and tax compliance services.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) Index to Consolidated Financial Statements, Financial Statement Schedules and Exhibits

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All other financial statements and schedules not listed in the preceding indexes 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

Inventory Valuation Allowance	Beginning of Year	Charged to Cost and Expense	Charged to Other Accounts	Deductions	End of Year
(In thousands)					
Fiscal year ended January 29, 2005	\$2,651	243	1,500 ^(b)	618	\$ 776
Fiscal year ended January 31, 2004	\$2,879	268	—	496	\$2,651 ^(a)
Fiscal year ended February 1, 2003	\$1,672	1,337	—	130	\$2,879 ^(a)

- (a) Consists primarily of reserve for merchandise returns and markdowns of aged goods.
- (b) Certain amounts were reclassified to other balance sheet accounts during the fiscal year ended January 29, 2005.

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 10.22 are management contracts or compensatory plans or arrangements required to be filed as an exhibit.

Exhibit No.	Document
2	Agreement of Merger dated May 15, 2001 (Exhibit 2 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 5, 2001, and incorporated herein by reference).
3.1	Amended Articles of Incorporation of the Company dated May 15, 2001 (Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the

quarter ended May 5, 2001, and incorporated herein by reference).

3.2	Code of Regulations of the Company (Exhibit 3(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended May 5, 2001, and incorporated herein by reference).
4	Specimen Common Share Certificate of the Company (Exhibit 4(a) to the Company's Annual Report on Form 10-K for the year ended February 2, 2002, and incorporated herein by reference).
10.1	Big Lots, Inc. 1996 Performance Incentive Plan, as amended and restated effective May 15, 2001 (Exhibit 10 to the Company's Post-Effective Amendment No. 1 to Form S-8 Registration Statement Under the Securities Act of 1933 and incorporated herein by reference).
10.2	Form of Agreement under the Big Lots, Inc. 1996 Performance Incentive Plan (Exhibit 10.2 to the Company's Current Report on Form 8-K dated September 9, 2004, and incorporated herein by reference).
10.3	Big Lots, Inc. Executive Stock Option and Stock Appreciation Rights Plan (Exhibit 10 to the Company's Post-Effective Amendment No. 3 to Form S-8 Registration Statement Under the Securities Act of 1933, and incorporated herein by reference).
10.4	Big Lots, Inc. Amended and Restated Director Stock Option Plan (Exhibit 10 to the Company's Post-Effective Amendment No. 1 to Form S-8 Registration Statement Under the Securities Act of 1933, and incorporated herein by reference).
10.5	First Amendment to Big Lots, Inc. Amended and Restated Director Stock Option Plan dated August 20, 2002 (Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended August 3, 2002, and incorporated herein by reference).
10.6	Form of Agreement under the Big Lots, Inc. Amended and Restated Director Stock Option Plan (Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 9, 2004, and incorporated herein by reference).
10.7	The 1998 Big Lots, Inc. Key Associate Annual Incentive Compensation Plan, as amended (Exhibit 10(l) to the Company's Annual Report on Form 10-K for the year ended February 2, 2002, and incorporated herein by reference).
10.8*	Big Lots Savings Plan, as amended and restated effective January 1, 2005.
10.9	Big Lots, Inc. Supplemental Savings Plan (Exhibit 10(c) to the Company's Annual Report on Form 10-K for the year ended January 31, 2004, and incorporated herein by reference).
10.10*	Big Lots Defined Benefit Pension Plan, as amended and restated effective January 1, 2005.
10.11	Big Lots Stores, Inc. Supplemental Defined Benefit Pension Plan (Exhibit 10(u) to the Company's Annual Report on Form 10-K for the year ended January 31, 2004, and incorporated herein by reference).
10.12	Big Lots Executive Benefit Plan (Exhibit 10(m) to the Company's Annual Report on Form 10-K for the year ended January 31, 2004, and incorporated herein by reference).

<u>Exhibit No.</u>	<u>Document</u>
10.13	Big Lots, Inc. Director Compensation Package dated January 2005 (Exhibit 10 to the Company's Current Report on Form 8-K dated January 27, 2005, and incorporated herein by reference).
10.14	Employment Agreement with Michael J. Potter dated January 6, 2005 (Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 6, 2005, and incorporated herein by reference).
10.15	Employment Agreement with Brad A. Waite dated February 1, 2004 (Exhibit 10(s) to the Company's Annual Report on Form 10-K for the year ended January 31, 2004, and incorporated herein by reference).
10.16	Employment Agreement with John C. Martin dated December 1, 2003 (Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 1, 2003, and incorporated herein by reference).
10.17	Employment Agreement with Donald A. Mierzwa dated February 1, 2004 (Exhibit 10(r) to the Company's Annual Report on Form 10-K for the year ended January 31, 2004, and incorporated herein by reference).
10.18	Employment Agreement with Kent A.W. Larsson dated February 1, 2004 (Exhibit 10(q) to the Company's Annual Report on Form 10-K for the year ended January 31, 2004, and incorporated herein by reference).
10.19	Form of Executive Severance Agreement (Exhibit 10(r) to the Company's Annual Report on Form 10-K for the year ended January 30, 1999, and incorporated herein by reference).
10.20	Form of Senior Executive Severance Agreement (Exhibit 10(s) to the Company's Annual Report on Form 10-K for the year ended January 30, 1999, and incorporated herein by reference).
10.21	Form of Retention Package (Exhibit 10.2 to the Company's Current Report on Form 8-K dated January 6, 2005, and incorporated herein by reference).
10.22	Form of Restricted Stock Award Agreement (Exhibit 10.3 to the Company's Current Report on Form 8-K dated January 6, 2005, and incorporated herein by reference).
10.23	Credit Agreement dated October 29, 2004, by and among Big Lots Stores, Inc., as borrower, the Guarantors named therein, and the Banks named therein (Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 29, 2004, and incorporated herein by reference).
10.24	Security Agreement dated as of October 29, 2004, by and between Big Lots Stores Inc. and Big Lots Capital, Inc. (Exhibit 10.2 to the Company's Current Report on Form 8-K dated October 29, 2004, and incorporated herein by reference).
10.25	Stock Purchase Agreement between KB Acquisition Corporation and Consolidated Stores Corporation (Exhibit 2(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 28, 2000, and incorporated herein by reference).
21*	Subsidiaries of the Company.
23*	Consent of Deloitte & Touche LLP.
24.1*	Power of Attorney for Sheldon M. Berman.
24.2*	Power of Attorney for David T. Kollat.
24.3*	Power of Attorney for Brenda J. Lauderback.
24.4*	Power of Attorney for Philip E. Mallott.
24.5*	Power of Attorney for Ned Mansour.
24.6*	Power of Attorney for Michael J. Potter.
24.7*	Power of Attorney for Russell Solt.
24.8*	Power of Attorney for James R. Tener.

Exhibit No.	Document
24.9*	Power of Attorney for Dennis B. Tishkoff.
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.

BIG LOTS, INC

Date: April 18, 2005

By: /s/ Michael J. Potter

Michael J. Potter
*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 and on the dates indicated.

Date: April 18, 2005

By: /s/ Michael J. Potter

Michael J. Potter
*Chairman of the Board, Chief Executive Officer
and President* (Principal Executive Officer)

Date: April 18, 2005

By: /s/ Joe R. Cooper

Joe R. Cooper
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

Date: April 18, 2005

Sheldon M. Berman
David T. Kollat
Brenda J. Lauderback
Philip E. Mallott
Ned Mansour
Michael J. Potter
Russell Solt
James R. Tener
Dennis B. Tishkoff
Directors

Charles W. Haubiel II, by signing his name hereto, does hereby sign this Annual Report on Form 10-K pursuant to the Powers of Attorney executed by the Directors named, filed with the Securities and Exchange Commission on behalf of such Directors, all in the capacities indicated and on the date stated, such persons being a majority of the Directors of the Registrant.

Dated: April 18, 2005

By: /s/ Charles W. Haubiel II

Charles W. Haubiel II
Attorney-in-Fact

**BIG LOTS
SAVINGS PLAN**

Amended and Restated

Effective

January 1, 2005

**BIG LOTS
SAVINGS PLAN**

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INTRODUCTION

Effective April 1, 1988, the Board of Directors of Consolidated Stores Corporation, a Delaware corporation, adopted the Consolidated Stores Corporation Savings Plan and Trust Agreement (“Plan”) in order to provide benefits for certain of its eligible Associates of those of its Affiliates which the Corporation agreed should be Employers under the Plan. Effective January 1, 1989, the Plan was amended and restated into a separate plan and the trust agreement was also amended and restated in its entirety into a separate trust agreement. The Plan was amended from time to time to take into account law changes and was again amended and restated in its entirety, effective as of January 1, 1999 to reflect all recent changes made to the law and applicable regulations, including the Economic Growth and Tax Relief Reconciliation Act of 2001 (effective as of January 1, 2002, unless otherwise indicated herein). Furthermore, Consolidated Stores Corporation merged with and into Big Lots, Inc. and Big Lots, Inc. is hereby referred to as the “Company” and the Plan was referred to as the Big Lots, Inc. Savings Plan and Trust. The Plan is now again amended and restated in its entirety generally effective January 1, 2005, and the Plan is now referred to as the Big Lots Savings Plan.

This Plan shall apply solely to an Associate whose employment with the Employer terminates on or after the Effective Date of this amended and restated Plan. An Associate whose employment with the Employer terminated prior to the Effective Date of this Plan shall be entitled to a benefit, if any, as determined under the provisions of the Plan as in effect on the date his employment terminated.

It is intended that this Plan meet all the pertinent requirements of the Internal Revenue Code of 1986 (hereinafter referred to as the “Code”) and the Employee Retirement Income Security Act of 1974 (hereinafter referred to as “ERISA”), and shall be interpreted, wherever possible, to comply with the terms of said laws, as amended, and all formal regulations and rulings issued thereunder.

ARTICLE I

DEFINITIONS

- 1.01 **Actual Contribution Percentage** means the average of the ratios (calculated separately for each Participant in a specified group) of
- (1) the amount of Matching Contributions to be paid over to the Trust Fund on behalf of each such Participant for such Plan Year to
 - (2) the Participant’s Compensation as defined in Section 1.14 for such Plan Year (whether or not the Participant was a Contributing Participant for the entire Plan Year).
- 1.02 **Actual Deferral Percentage** means the average of the ratios (calculated separately for each Participant in a specified group) of
- (1) the amount of Salary Deferral to be paid over to the Trust Fund on behalf of each such Participant for such Plan Year to
 - (2) the Participant’s Compensation as defined in Section 1.14 for such Plan Year (whether or not the Participant was a Contributing Participant for the entire Plan Year).
- 1.03 **Affiliate** means
- (1) any corporation which, with the Company, is a member of a controlled group of corporations under Section 414(b) of the Code;
 - (2) any trade or business which is under common control with the Company under Section 414(c) of the Code;
 - (3) any member of an affiliated service group containing the Company under Section 414(m) of the Code; or
 - (4) any other entity specified by the Secretary of the Treasury to be combined with the Company as a single employer under Section 414(o) of the Code;
- 1.04 **Annual Addition** means for any Participant in any Limitation Year, the sum of (a) Profit Sharing and Qualified Nonelective, (b) Salary Deferral, (c)

Matching and Qualified Matching Contributions allocated to a Participant's Individual Account, Nondeductible Employer Contributions, and Forfeitures. Amounts derived from contributions paid or accrued which are attributable to post retirement medical benefits allocated to the separate account of a Key Employee, as required by Section 419A(d) of the Code, maintained by the Employer, are treated as Annual Additions to a Defined Contribution Plan.

- 1.05 Associate means each current or future common law employee of an Employer as defined in the records of the Company, excluding (i) any leased employee as defined in Section

414(n)(2) of the Code, and (ii) any employee represented by a collective bargaining unit, provided there is evidence that retirement benefits were the subject of good faith bargaining between such collective bargaining unit and the Employer, unless the Employer and the collective bargaining unit have agreed to coverage hereunder.

- 1.06 Beneficiary means any person designated by a Participant to receive such benefits as may become payable hereunder after the death of such Participant, provided, however, that a married Participant may not name as his Beneficiary someone other than his spouse unless the spouse consents in writing to such designation, which consent shall be acknowledged by a Plan representative or by a notary public.
- 1.07 Board means the board of directors of Big Lots, Inc.
- 1.08 Break in Service means a Plan Year during which as Associate or former Associate has earned fewer than five hundred and one (501) Hours of Service due to Termination of Employment.

Solely to determine whether a Break in Service occurred, an Associate who is absent from work for maternity or paternity reasons shall receive credit for up to 501 Hours of Service which would otherwise have been credited to such employee but for such absence, or in any case in which such Hours cannot be determined, eight (8) Hours per day of such absence. For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence (1) by reason of the pregnancy of the Participant, (2) by reason of a birth of a child of the Participant, (3) by reason of the placement of a child with the Participant in connection with the adoption of such child by the Participant, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement.

The Hours of Service credited under this paragraph shall be credited (1) in the Plan Year in which the absence begins if the crediting is necessary to prevent a Break in Service in that period, or (2) in all other cases, in the following Plan Year or other applicable computation period.

- 1.09 Code means the Internal Revenue Code of 1986, as amended.
- 1.10 Committee means the Big Lots Associates Benefits Committee.
- 1.11 Company means Big Lots, Inc. and its Affiliates.

-
- 1.12 Company Profit Sharing Contribution Account means that portion of a Participant's Individual Account attributable to (a) Company Profit Sharing Contributions and (b) the Participant's proportionate share, attributable to his Company Profit Sharing Contribution Account, of Income, reduced by any distributions from such account pursuant to Article VIII and any withdrawals from such Account pursuant to Article IX.
- 1.13 Company Profit Sharing Contributions means contributions made to the Fund by an Employer pursuant to Section 3.04 that are allocated to all eligible Participants based on their Compensation pursuant to Section 7.02.
- 1.14 Compensation means, for any Associate, the Associate's base compensation paid by the Employer during the Plan Year, including salary reduction contributions made to a cafeteria plan under Section 125 of the Code and Salary Deferral made pursuant to Section 3.01, but excluding overtime, bonuses, commissions and other monetary remuneration as reported on the Associate's Federal Income Tax Withholding Statement (Form W-2). Compensation shall not include any Company Profit Sharing Contributions allocated to the Associate's Individual Account, any other accrued unpaid earnings, nonqualified deferred compensation, other than that which is deferred and held specifically for contribution to the Plan by any supplemental savings plan maintained by the Company for such purposes, or any other fringe benefit (whether or not taxable). For Plan Years beginning on or after January 1, 1989, Compensation as defined in this Section shall be limited to the amount permitted under Sect of the Code (as adjusted by the Secretary of the Treasury). For Plan Years beginning on and after January 1, 2002, Compensation shall not exceed \$200,000, as adjusted for cost-of-living increases in accordance with Section 401(a)(17) of the Code.
- 1.15 Contributing Participant means an eligible Participant who has elected to make Salary Deferral contributions to the Plan during a Plan Year as provided in Section 2.02.
- 1.16 Defined Benefit Plan means a plan established and qualified under Section 401(a) of the Code, except to the extent it is, or is treated as, a Defined Contribution Plan.
- 1.17 Defined Contribution Plan means a plan which is established and qualified under Section 401(a) of the Code, which provides for an Individual Account for each Participant therein and for benefits based solely on the amount contributed to each Participant's account and any Income and expenses or gains or losses (both realized and unrealized) that may be allocated to such account.
- 1.18 Disability means a physical or mental condition that, in the judgment of the Committee based upon medical reports and other evidence satisfactory to the Committee, will permanently prevent the Participant from satisfactorily performing his usual duties for the Employer or the duties of such other position or job that the Employer makes available to him and for which such Participant is qualified by reason of training, education or experience.

Effective as of January 1, 1996, Disability means a physical or mental condition which has continued for six (6) months or more and which is expected to be permanent, as determined by the Social Security Administration.

- 1.19 Early Retirement Date means the first day of the calendar month coincident with or immediately following the date a Participant attains age fifty-five (55) and completes ten (10) years of Vesting Service.
- 1.20 Effective Date means January 1, 2005, except where separately stated.
- 1.21 Eligibility Computation Period means the twelve (12) consecutive month period used to measure Years of Eligibility Service and Breaks in Service for purposes of eligibility to begin and maintain participation in the Plan. The initial Eligibility Computation Period for any Associate shall be the twelve (12) consecutive month period beginning with the Associate's date of employment or reemployment with the Employer in which the Associate performs his first Hour of Service. All subsequent Eligibility Computation Periods shall begin with the Plan Year in which the anniversary date of the Associate's date of employment or reemployment with the Employer occurs, and each succeeding Plan Year thereafter. Notwithstanding any provision of the Plan to the contrary, contributions, benefits, and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.
- 1.22 Employer As of the Effective Date, "Employer" shall mean, collectively or individually as the context may indicate, the Company, Big Lots Stores, Inc., C.S. Ross Company, PNS Stores, Inc., Closeout Distribution, Inc., CSC Distribution, Inc., Durant DC, LLC, West Coast Liquidators, Inc., and Big Lots Capital, Inc., and any other corporation which (a) is an Affiliate, (b) the Board shall have authorized to adopt the Plan, and (c) by action of its own board of directors shall have adopted the Plan and the Trust Agreement, or any successor to one or more of such entities.
- 1.23 Entry Date means the date during each Plan Year after which an Associate has satisfied the eligibility requirements of Section 2.01 of the Plan.
- 1.24 Fiduciary means the Employer, the Trustee, the Committee and any individual, corporation, firm or other entity that assumes, in accordance with Article XI, responsibilities of the Employer, the Trustee or the Committee respecting management of the Plan or the disposition of its assets.
- 1.25 Former Participant means a Participant whose participation in the Plan has terminated but who has not received payment in full of the balance in his Individual Account to which he is entitled.
- 1.26 Fund means the trust fund created in accordance with Article X hereof.

- 1.27 Highly Compensated Employee means any Associate who: (1) was a 5 percent or more owner at any time during the Plan Year of the preceding Plan Year, or (2) for the preceding Plan Year had Compensation from the Employer in excess of \$80,000 and was in the top-paid group for the preceding Plan Year. The \$80,000 amount shall be adjusted at the same time and in the same manner as under Section 415(d), except that the base period shall be the calendar quarter ending September 30, 1996. For purposes of this Section, the applicable year of the Plan for which a determination shall be made is called the determination year and the preceding 12-month period is called the look-back year.
- 1.28 Hour of Service means any hour for which an Associate is paid or entitled to payment by the Company or an Affiliate during the Plan Year or other applicable computation period (1) for the performance of duties for the Company or the Affiliate; (2) on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated due to vacation, holiday, illness, incapacity (including Disability), layoff, jury duty, military duty or leave of absence). No more than 501 Hours of Service will be credited under this paragraph for any single continuous period (whether or not such period occurs in a single computation periods); and (3) as a result of a back pay award which has been agreed to or made by the Company or the Affiliate, irrespective of mitigation of damages, to the extent that such hour has not been previously credited under item (1) or item (2) above.

Hours of Service shall be determined in accordance with Department of Labor Regulation Section 2530.200b-2, which is incorporated herein by this reference. Hours of Service shall be credited to the appropriate computation period in accordance with Department of Labor Regulation Section 2530.200b-2(c).

- 1.29 Income means the net gain or loss of the Fund from investments, as reflected by interest payments, dividends, realized and unrealized gains and losses on securities, other investment transactions and expenses paid from the Fund. In determining the Income of the Fund as of any date, assets shall be valued on the basis of their fair market value.
- 1.30 Individual Account means the detailed record kept of the amounts credited or charged to each Participant in accordance with the terms hereof. Such Individual Account is comprised of a Salary Deferral Account, a Matching Contribution Account, a Company Profit Sharing Contribution Account, and a Rollover Account, as applicable.
- 1.31 Investment Fund means an Investment Fund as described in Article V.
- 1.32 Investment Manager means a person(s) or organization(s) who is appointed under Section 11.04 to direct the investment of all or a part of the Fund and who is either (a) registered in good standing as an Investment Adviser under the Investment Advisers Act of 1940, (b) a bank, as defined in said Act, (c) an insurance company qualified to perform investment management service, or (d) a Fiduciary.
- 1.33 Key Employee

For Plan Years beginning after December 31, 2001, Key Employee means any Associate or former Associate or Beneficiary (including any deceased Associate) who at any time during the Plan Year that includes the determination year is:

- (a) an officer of the Employer having an annual compensation greater than \$130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002);
- (b) a five (5) percent or more owner of the Employer;
- (c) a one (1) percent or more owner of the Employer having annual compensation from the Employer of more than one hundred fifty thousand dollars (\$150,000).

For purposes of this definition, annual compensation means compensation as defined in Section 415(c)(3) of the Code, but including amounts contributed by the Employer pursuant to a salary reduction agreement which are excludable from the Associate's gross income under Sections 125, 402(g)(3), or 403(b) of the Code.

This definition shall be interpreted consistent with Code Section 416 and rules and regulations issued thereunder. Further, such law and regulations shall be controlling requirements stated thereunder but hereinabove absent.

- 1.34 Limitation Year means the twelve (12) month period beginning on January 1 and ending on December 31.
- 1.35 Matching Contribution Account means that portion of a Participant's Individual Account attributable to (a) Matching Contributions made on his behalf pursuant to Section 3.02, and (b) the Participant's proportionate share, attributable to his Matching Contribution Account, of the Income, reduced by any distributions from such Account pursuant to Article VIII and any withdrawals from such Account pursuant to Article IX.
- 1.36 Matching Contributions means contributions made to the Fund by the Employer pursuant to Sections 3.02, 3.06 and 3.07 that are allocated to Contributing Participants based on their Salary Deferral during a Plan Year pursuant to Section 7.02.
- 1.37 Non Highly Compensated Employee means any Associate who is not a Highly Compensated Employee
- 1.38 Normal Retirement Age means the Participant's attainment of age sixty-five (65). An Associate shall have a nonforfeitable right to one hundred percent (100%) of his Individual Account upon attainment of his Normal Retirement Age.
- 1.39 Normal Retirement Date means the first day of the month coincident with or next following the Participant's Normal retirement Age, or if later than the attained age of the

Associate, on the fifth anniversary of the date the Associate commenced participation in the Plan.

- 1.40 Participant means any Associate who becomes a Participant as provided in Article II hereof.
- 1.41 Plan Year means the twelve (12) month period beginning January 1 and ending December 31.
- 1.42 Rollover Account means that portion of an Associate's Individual Account attributable to (a) Rollover Contributions made pursuant to Article VI, and (b) the Associate's proportionate share, attributable to his Rollover Account, of the Income, reduced by any distribution from the such Account pursuant to Article VIII and any withdrawals from such Account pursuant to Article IX. The balance of an Associate's Rollover Account shall be fully vested and nonforfeitable at all times.
- 1.43 Rollover Contributions means contributions made by an Associate to such Associate's Rollover Account pursuant to Article VI.
- 1.44 Salary Deferral means contributions made to the Fund by an Employer on behalf of a Contributing Participant pursuant to Section 3.01.
- 1.45 Salary Deferral Account means that portion of a Participant's Individual Account attributable to (a) Salary Deferral amounts made on his behalf pursuant to Section 3.01, and (b) the Participant's proportionate share, attributable to his Salary Deferral Account, of Income, reduced by any distribution from such Account pursuant to Article VIII and any withdrawals from such Account pursuant to Article IX. The balance of a Participant's Salary Deferral Account shall be fully vested and nonforfeitable at all times.
- 1.46 Termination of Employment shall be deemed to occur when an Associate has an interruption in continuity of his employment by the Employer. Such termination may have resulted from retirement, death, voluntary or involuntary termination of employment, unauthorized absence, or by failure to return to active employment with the Employer or to retire by the date on which an authorized leave of absence expired.
- 1.47 Top Heavy Plan means any plan under which, as of any determination date, the present value of the cumulative accrued benefits under the plan for Key Employees exceeds sixty (60) percent of the present value of the cumulative accrued benefits under the plan for all Associates.

For purposes of this definition:

- (a) If such plan is a Defined Contribution Plan, the present value of cumulative accrued benefits shall be deemed to be the market value of all Associate accounts under the plan, other than voluntary deductible

employee contributions. If such plan is a Defined Benefit Plan, the present value of cumulative accrued benefits shall be the lump sum present value determined pursuant to said plan.

- (b) A plan shall be considered Top Heavy for any Plan Year if, on the last day of the preceding Plan year (the determination date), the above rules were met. For the first Plan Year that the plan shall be in effect, the determination of whether said Plan is Top Heavy shall be made as of the last day of such Plan Year.
- (c) Each plan of the Employer required to be included in an “aggregation group” shall be treated as a Top Heavy Plan if such group is a top heavy group.
- (d) The term “aggregation group” means
 - (i) each qualified plan of the Employer in which a Key Employee is a Participant and
 - (ii) each other qualified plan of the Employer which enable any plan in (i) above to meet the requirements of Section 401(a)(4) of the Code.

The term “aggregation group” includes any plans of the Employer that have been terminated during the previous five (5) Plan Years.

- (e) The term “permissive aggregation group” means the aggregation group and each other plan or plans of the Employer that are not required to be included in the aggregation group, as defined in Section 1.47(d) above, and which, if treated as being part of such group, would not cause such group to fail to meet the requirements of Sections 401(a)(4) and 410 of the Code.
- (f) The account balances and accrued benefits of a Participant (1) who is not a Key Employee but who was a Key Employee in a prior year, or (2) who has not been credited with at least one Hour of Service with the Employer maintaining the Plan during the five (5) year period (one (1) year period for Plan Years beginning after December 31, 2001) ending on the determination date will be disregarded.
- (g) For Plan Years beginning after December 31, 2001, the account balances and accrued benefits of a Participant as of the determination date shall be increased by the distributions made with respect to the Participant under the Plan and any plan aggregated with this Plan under Section 416(g)(2) of the Code during the one year period ending on said determination date. This subsection shall also apply to distributions under a terminated plan that, had it not been terminated, would have been aggregated with this Plan. In the case of a distribution made for a reason other than Termination of Employment, death, or being Disabled, this subsection shall be applied as if the one year period is a five year period.
- (h) This definition shall be interpreted consistent with Section 416 of the Code and rules and regulations issued thereunder.

Further, such law and regulations shall be controlling in all determinations under this definition inclusive of any provisions and requirements stated thereunder but hereinabove absent.

- 1.48 Trust Agreement means the agreement entered into between the Company and the Trustee.
- 1.49 Trustee means such person(s) or financial institution(s) qualified under the Code as shall be designated in the Trust Agreement to hold in trust any assets of the Plan for the purpose of providing benefits under the Plan, and shall include any successor trustee designated thereunder.
- 1.50 Valuation Date means the business close of each business day in the Plan Year as of which date the Fund shall be valued at fair market value.
- 1.51 Vesting Service means, subject to the reemployment provisions of Section 2.03, the total number of calendar years (including years prior to the Effective Date) during which an Associate has at least one thousand (1,000) Hours of Service for the Employer.

If an Associate incurs five (5) or more consecutive Breaks in Service, the Associate’s Vesting Service prior to the consecutive Breaks in Service will be disregarded if the Associate does not have a nonforfeitable interest in his Company Profit Sharing Contribution Account or Matching Contribution Account and the number of consecutive Breaks in Service equals or exceeds the Associate’s Vesting Service earned before the commencement of the consecutive Breaks in Service. If an Associate has incurred less than five (5) consecutive Breaks in Service, upon reemployment, his Vesting Service shall not be disregarded.

Notwithstanding any provision of the Plan to the contrary, contributions, benefits, and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

- 1.52 Year of Eligibility Service means an Eligibility Computation Period during which an Associate has completed at least one thousand (1,000) Hours of Service.

Notwithstanding any provision of the Plan to the contrary, contributions, benefits, and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

2.01 Participation

Each Associate who has attained age twenty-one (21) and has completed one Year of Eligibility Service prior to January 1, 2005 and is employed on January 1, 2005 shall continue to be a Participant in the Plan as of January 1, 2005.

Each Associate who is employed in January 1, 2005 but had not either (a) attained age twenty-one (21) or (b) completed one Year of Eligibility Service as of January 1, 2005, shall become a Participant on the Entry Date coincident with or immediately following the date on which he both attains age twenty-one (21) and completes one Year of Eligibility Service.

Any Associate whose date of hire is on or after January 1, 2005 shall become a Participant in the Plan on the Entry Date, coincident with or immediately following the later of (i) the attainment of age twenty-one (21) and (ii) completion of one Year of Eligibility Service.

Upon commencement of Participant in the Plan, each Participant shall have the right to designate by any method approved by the Committee, including but not limited to electronic or telephonic, the Participant's selection of Investment Funds in which Salary Deferral and Qualified Matching Contributions shall be invested.

2.02 Contributing Participant

An Associate who satisfies the requirements of Section 2.01 may become a Contributing Participant by electing to have Salary Deferral made on his behalf pursuant to Section 3.01, and by making the election required by Section 5.02. Such election may, subject to the provisions of Section 3.01, be made effective as of the first pay period coincident with or next following the Entry Date on which the Participant becomes a Contributing Participant.

2.03 Reemployment

Upon the reemployment of any person after the Effective Date, the following rules shall apply in determining his eligibility to participate in the Plan.

- (a) If an Associate who was not eligible to become a Participant in the Plan during his prior period of employment is reemployed, he shall be eligible to participate in the Plan as of the first Entry Date after he has met the requirements of Section 2.01.
- (b) If an Associate who was a Participant, or eligible to become a Participant, in the Plan during his prior period of employment is reemployed, he shall again become eligible to participate in the Plan as of the Entry Date coincident with or next following his date of reemployment.

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Nevertheless, the service earned by an Associate during his prior period of employment will be disregarded until he has completed another Year of Eligibility Service after reemployment but only if the Associate incurred a Break in Service.

2.04 Leaves of Absence

Subject to the following rules, participation shall continue during the Participant's employment by the Employer. For purposes of the preceding sentence, a Participant will continue to be treated as employed by an Employer if he is on approved leave of absence, if the Participant returns to work before or at the expiration of such leave of absence or any extension thereof. Failure to return at the end of such leave of absence, as determined by the Employer, shall be treated as a Termination of Employment as of the date on which the Participant fails to return from the leave of absence, except that in the case of death or retirement, the termination shall be deemed to have occurred as of the date of death or retirement.

2.05 Cessation of Participation

Participation in the Plan shall cease upon Termination of Employment with the Employer. Cessation of participation shall not require a distribution of the balance of an Individual Account except as provided in Article VIII.

2.06 Beneficiary Designation

Subject to the consent provisions of Section 1.06, upon commencing participation, each Participant shall designate a Beneficiary on forms furnished by the Committee. Such Participant may then from time to time change his designated Beneficiary by written notice to the Committee (with spousal consent, if necessary) and, upon such change, the rights of all previously designated Beneficiaries to receive any benefits under this Plan shall cease. If at the time of a Participant's death while benefits are still outstanding, his named Beneficiary does not survive him, the benefits shall be paid to his named contingent Beneficiary. If a deceased Participant is not survived by either a named Beneficiary or contingent Beneficiary (or if no Beneficiary was effectively named), the benefits shall be paid in a single sum to the person(s) in the first of the following classes of successive preference beneficiaries then surviving: the Participant's (a) widow or widower, (b) children, (c) parents, (d) brothers and sisters, (e) executors and administrators. If the Beneficiary or contingent Beneficiary is living at the death of the Participant, but such person dies prior to receiving the entire death benefit, the remaining portion of such death benefits shall be paid in a single sum to the estate of such deceased Beneficiary or contingent Beneficiary.

2.07 Notification of Individual Account Balance

At least once each Plan Year, or more frequently as determined by the Committee, the Committee shall notify each Participant of the amount of his share in the Income, Company

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Profit sharing Contributions, Matching Contributions, Rollover Contributions, and Salary Deferral for the period just completed, and the new balance of his Individual Account.

2.08 Plan Binding

Upon becoming a Participant, a Participant shall be bound then and thereafter by the terms of this Plan and the Trust Agreement, including all amendments to the Plan and the Trust Agreement made in the manner herein authorized or as otherwise authorized by law.

ARTICLE III

CONTRIBUTIONS

3.01 Salary Deferral

Each Participant who satisfies the requirements of Section 2.01 may elect pursuant to Section 2.02 to become a Contributing Participant by electing to have Salary Deferral made on his behalf by completing a Salary Deferral agreement. The Salary Deferral agreement with the Participant's Employer shall provide that it is agreed that his Employer shall redirect a portion of the Participant's Compensation during each pay period and that the Employer will contribute that amount to the Fund on his behalf. All Salary Deferral elections shall be subject to the provisions of Section 5.04.

The Salary Deferral agreement shall be made by any method approved by the Committee including but not limited to electronic or telephonic. In the event a Participant does not so elect when first eligible, he may subsequently elect to have Salary Deferral made on his behalf commencing as soon as is administratively feasible coincident with or next following any Entry Date.

A Participant may elect to redirect a portion of his Compensation, expressed as a whole dollar amount or a whole percentage of his Compensation, during each pay period in an amount not less than one percent (1%) nor greater than (50%) fifty percent of his Compensation. In no event, however, shall the amount of Salary Deferral be less than three dollars (\$3.00) per week (effective as of January 1, 1996, two dollars (\$2.00) per week). Beginning with the 2002 Plan Year, the amount of Salary Deferral shall be made only in whole percentages as described hereof.

A Participant's Salary Deferral, including contributions to any other plan of the Company that are made pursuant to Section 402(g)(3) of the Code, may not exceed the dollar limitation set forth in Section 402(g)(1) of the Code, as adjusted by Section 402(g)(5) of the Code in any one calendar year.

Effective for Plan Years beginning on and after January 1, 2002, all Associates who are eligible to become Participants and make Salary Deferral to this Plan who have attained age fifty (50) before the close of the Plan Year shall be eligible to make catch-up Salary Deferral contributions in accordance with and subject to the limitations of Section 414(v) of the Code. Such catch-up contributions shall not be taken into account for purposes of Section 7.05 of this Plan nor taken into account for purposes of the required limitations as specified in Sections 402(g) and 415 of the Code or the requirements of Sections 401(k)(3), 401(k)(11), 401(k)(12) or 416 of the Code.

If, during any calendar year, a Participant makes Salary Deferral to this Plan in excess of the limit provided in the preceding paragraph, and if the Participant notifies the Committee in writing by March 1 following the close of the calendar year of the portion of the amount contributed in excess of said limit to all plans pursuant to Section 402(g)(3) of the Code, such amount shall be

deemed an "excess deferral" and the Committee shall direct the Trustee to distribute to the Participant (not later than the April 15 following the calendar year in which the excess deferral was made) the amount of the excess deferral plus any Income and minus any loss allocable to such amount. For purposes of determining the Income or losses on excess deferrals that will be returned to the Participant, such Income or losses shall include the Income attributable to such excess deferrals for the Plan Year during which the excess deferral was made plus the Income attributable to such excess deferral from the end of the Plan Year in which they were made to the date the excess deferral is returned to the Participant, as described in the regulations under Section 402(g) of the Code.

Once contributed to the Fund, Salary Deferral shall be credited to the Participant's Salary Deferral Account and shall not be subject to withdrawal except as provided in Article IX.

A Participant electing to have Salary Deferral made on his behalf to the Plan pursuant to this Section may, as soon as is administratively feasible following notice to the Committee, increase or decrease his Salary Deferral percentage (within the appropriate minimum and maximum). However, a Participant who is an insider under Section 16 of the Securities Exchange Act of 1934 may change his Salary Deferral only in accordance with procedures established by the Company.

Any Contributing Participant may elect to cease future Salary Deferral to the Plan effective as soon as is administratively feasible following notice to the Committee. In the event any such Participant desires thereafter to recommence having Salary Deferral made on his behalf, he shall be allowed to do so effective as soon as is administratively feasible following notice to the Committee.

Any of the notice requirements in this Section may be made by any method approved by the Committee including but not limited to the use of electronic or telephonic means.

The Employer shall pay to the Trustee any Salary Deferral made on behalf of any Contributing Participant within a reasonable time following the end of each regular pay period.

3.02 Matching Contributions

An Employer, by action of its board of directors, shall make a Matching Contribution. Such Matching Contribution shall be in an amount as determined by the Board and communicated to the Participants each Plan Year. Such Matching Contribution shall be allocated to the Matching Contribution Account of each Participant. Such Matching Contribution shall be allocated in proportion to Salary Deferral made to all Investment Funds on behalf of the Participant. For Plan Years beginning on and after January 1, 1996, Matching Contributions shall be allocated to the Company Matching Contribution Account of each Participant who (1) is an active Participant and employed by the Employer on such December 31 Valuation Date (including a Participant who is on an approved leave of absence or layoff) and who completed one year of Vesting Service for the Plan Year; or (2) is retired, became Disabled, or died during the Plan Year ending on such December 31 Valuation Date.

Effective for the 1996 Plan Year and for each Plan Year thereafter (unless otherwise determined by the Board of the Company), the Matching Contribution to the Plan shall be determined as follows:

- (a) 100% of the first two percent (2%) of the Participant's Salary Deferral made to the Fund by the Employer on behalf of an eligible Contributing Participant for the Plan Year; and
- (b) 50% of the next four percent (4%) of the Participant's Salary Deferral made to the Fund by the Employer on behalf of an eligible Contributing Participant for the Plan Year.

Effective as of February 1, 1998, a Matching Contribution made to the Plan shall be in the form of Company Stock unless the Committee in its sole and final discretion determines otherwise.

As used in this Plan, the term "Company Stock" means common stock of the Company that shall be held in a pooled investment account consisting of Company Stock and cash that shall be maintained pursuant to an administrative services agreement between the Company and the Trustee.

3.03 Restrictions and Conditions on Matching Contributions

Matching Contributions shall be subject to the following restrictions and conditions:

- (a) In no event shall an Employer be obligated to make a Matching Contribution for a given Plan Year in excess of the maximum amount deductible under Section 404(a)(3)(A) of the Code, or any statute or rule of similar import.
- (b) If due to a mistake of fact, the Matching Contribution to the Fund for any Plan Year exceeds the amount intended to be contributed, notwithstanding any provision to the contrary, the Employer, as soon as such mistake of fact is discovered, shall notify the Trustee.

The Employer shall direct that the Trustee return such excess to the Employer, provided such return is made within one (1) year of the date on which the Employer made the Matching Contribution.

3.04 Company Profit Sharing Contributions

As of each December 31 Valuation Date, an Employer may make a Company Profit Sharing Contributions, in addition to amounts contributed pursuant to Section 3.02 in an amount determined by the Employer in its total and complete discretion. No Company Profit Sharing Contribution shall be required in any given Plan Year. Company Profit Sharing Contributions shall be allocated to the Company Profit Sharing Contribution Account of each Participant (1) who is a Participant on such December 31 Valuation Date (including a Participant who in on an approved leave of absence or layoff) and who completed one year of Vesting Service for the

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Plan Year, or, (2) who retired, became Disabled or died during the Plan Year ending on such December 31, Valuation Date. Such company Profit Sharing Contribution allocation shall be on the basis of the ratio of each such eligible Participant's Compensation, while an Associate of such contributing Employer for the Plan Year over the total Compensation for all such eligible Participants while Associates of such contributing Employer for the Plan Year.

3.05 Restrictions and Conditions on Company Profit Sharing Contributions

Company Profit Sharing Contributions shall be subject to the following restrictions and conditions:

- (a) In no event shall an Employer be obligated to make a Company Profit Sharing Contribution for a given Plan Year in excess of the maximum amount deductible under Section 404(a)(3)(A) of the Code, or any statute or rule of similar import.
- (b) If due to a mistake of fact, the Company Profit Sharing Contribution to the Fund for any Plan Year exceeds the amount intended to be contributed, notwithstanding any provision to the contrary, the Employer, as soon as such mistake of fact is discovered, shall notify the Trustee.

The Employer shall direct that the Trustee return such excess to the Employer, provided such return is made within one (1) year of the date on which the Employer made the Company Profit Sharing Contribution.

3.06 Qualified Nonelective Contributions

If so elected, an Employer may make Qualified Nonelective Contributions to the Plan on behalf of one or more Associates who are Non Highly Compensated Employees. Such contributions shall be allocated to the Participant's Individual Account in the same manner as Company Profit Sharing Contributions. For purposes of this Section, Qualified Nonelective Contributions are contributions that Participants may not elect to receive in cash until distributed from the Plan, are nonforfeitable when made and are distributable only in accordance with the distribution provisions applicable to Salary Deferrals other than withdrawals by reason of hardship pursuant to Article IX.

3.07 Qualified Matching Contributions

If so elected, an Employer may make Qualified Matching Contributions to the Plan on behalf of one or more Associates who are Non Highly Compensated Employees. Such contributions shall be allocated to the Participant's Individual Account in the same manner as Matching Contributions. For purposes of this Section, Qualified Matching Contributions are contributions that Participants may not elect to receive in cash until distributed from the Plan, are nonforfeitable when made and are distributable only in accordance with the distribution provisions applicable to Salary Deferrals other than withdrawals by reason of hardship pursuant to Article IX.

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ARTICLE IV

LIMITATIONS ON CONTRIBUTIONS

4.01 Testing of Salary Deferral

Notwithstanding anything contained herein to the contrary, in each Plan Year in which Salary Deferrals are made to the Plan, such Salary Deferrals shall be subject to the following tests (the “ADP tests”). For purposes of the ADP tests, all Salary Deferrals made under any plans that are aggregated for purposes of Sections 401(a)(4) or 410(b) of the Code (without regard to Section 410(b)(2)(A)(ii) of the Code) shall be treated as made under a single plan of the Employer, and such aggregated plans must satisfy Sections 401(a)(4) and 410(b) of the Code as though they were a single plan. The Salary Deferral under this Plan and elective contributions under all other cash or deferred arrangements of the Employer made on behalf of Highly Compensated Employees shall be combined for purposes of the ADP tests. Such plans may be aggregated to satisfy Section 401(k) of the Code only if they have the same Plan Year. The ADP tests shall apply to the Salary Deferrals made for the Plan Year as determined as of the end of the Plan Year. The Employer may apply the ADP tests at any other time during the Plan Year.

In performing the test all Participants shall be separated into two (2) groups — the Highly Compensated Employee group and the Non Highly Compensated Employee group.

Only one of the following two ADP tests needs to be satisfied for there not to be an adjustment to Salary Deferral as provided below.

Test I: The Actual Deferral Percentage for the Plan Year for the eligible Highly Compensated Employee group for each Plan Year is not more than the Actual Deferral Percentage of the Non Highly Compensated Employee group for the prior Plan Year multiplied by 1.25.

Test II: The excess of the Actual Deferral percentage for the Plan Year for the eligible Highly Compensated Employee group for each Plan Year over that of the Non Highly Compensated Employee group for the prior Plan Year is not more than two percentage points, and the Actual Deferral Percentage for the Plan Year for the Highly Compensated Employee group for each Plan Year is not more than the Actual Deferral Percentage for the prior Plan Year for the Non Highly Compensated Employee group for the prior Plan Year multiplied by 2.0.

Any adjustments to the Non Highly Compensated Employee group Actual Deferral Percentage for the prior Plan Year shall be made in accordance with IRS Notice 98-1 and any superceding guidance issued by the IRS.

For purposes of determining who is a Highly Compensated Employee, a Participant is a Highly Compensated Employee for a particular Plan Year if the Participant meets the definition of Highly Compensated Employee if effect for that Plan Year. A Participant is a Non Highly

Compensated Employee if the Participant does not meet the definition of Highly Compensated Employee in effect for that Plan Year.

The Actual Deferral Percentage shall include (1) any Salary Deferrals, including excess deferrals described in Section 3.01, but excluding any Salary Deferrals that are taken into account in satisfying the ACP tests described in Section 4.01 (provided the ADP test described herein is satisfied both with and without exclusion of such Salary Deferrals) and (2) if so elected by the Committee, any Qualified Nonelective Contributions and qualified Matching Contributions. To the extent contributions in (2) above are so applied, they shall not be included in the computation of the Actual Contribution Percentage otherwise applicable to such contributions. For purposes of computing Actual Deferral Percentages, an Associate who would be a Participant but for the failure to make Salary Deferrals shall be treated as a Participant on whose behalf no Salary Deferrals are made.

Upon the application of the ADP tests prior to the end of the Plan Year, if neither test is met, the Committee may adjust the Highly Compensated Employee’s election for the remainder of the Plan Year to the extent necessary to meet either test.

Upon the application of the tests at the end of the Plan Year, if neither test is met, the Committee shall return to the Highly Compensated Employee, by the end of the next Plan Year, the amount of Salary Deferral, inclusive of earnings or losses, necessary to meet either test. However, such amounts must be returned within two and one-half months after the end of the affected Plan Year to avoid an excise tax upon the Employer. The adjustment of Salary Deferrals of Highly Compensated Employees to be returned (after excess Salary Deferrals and other Employer contributions required to be taken into account in determining amounts under Section 402(g) of the Code have been returned) shall be allocated to those Highly Compensated Employees with the largest amounts of contributions taken into account in determining the ADP test for the Plan Year in which the excess arose, beginning with the Highly Compensated Employee with the largest amount of such contributions and continuing in descending order until all the excess contributions have been allocated. For purposes of determining the earnings or losses on Salary Deferral that will be returned to the Highly Compensated Employee, such earnings or losses shall include the Income attributable to such Salary Deferral for the Plan Year during which the excess Salary Deferral was made plus the Income attributable to such Salary Deferral from the end of the Plan Year in which they were made to the date the excess Salary Deferral is distributed to the Participant, as described in the regulations under Section 401(k) of the Code.

The amount of excess Salary Deferral that may be distributed shall be reduced by the amount of any excess deferrals pursuant to Section 402(g) of the Code, as described in Section 3.01, previously distributed in the Participant’s taxable year ending with or within the applicable Plan Year.

It is specifically provided hereunder that any Matching Contribution shall be conditioned upon permissible Salary Deferral. Salary Deferral shall only be permissible to the extent they meet the ADP tests provided herein. In the event such ADP tests require the return of excess Salary Deferral, the corresponding Matching Contribution shall not be made to the Plan or, if such

Matching Contribution has already been made to the Plan prior to the time the ADP tests are performed, then such Matching Contribution shall be used to reduce subsequent Employer Contributions.

Subject to the limitation of Section 4.03, the determination of which ADP test shall be met shall be based upon the test that requires the adjustment of the smallest amount of Salary Deferral.

The Committee shall establish rules and procedures for modifying the election with respect to the Highly Compensated Employees to ensure, to the extent possible, that either of the ADP tests will be met.

The Employer shall maintain records sufficient to demonstrate compliance with the ADP test.

All rules of application with reference to the ADP tests shall be governed by Section 401(k) of the Code and any rules and regulations issued pursuant thereto.

4.02 Testing of Matching Contributions

In each Plan Year in which Matching Contributions are made to the Plan, such Matching Contributions shall be subject to the following tests (the “ACP tests”). For purposes of the ACP tests, all Matching Contributions made under any plans that are aggregated for purposes of Sections 401(a)(4) or 410(b) of the Code (without regard to Section 410(b)(2)(A)(ii)) of the Code shall be treated as made under a single plan of the Employer, and such aggregated plans must satisfy Sections 401(a)(4) and 410(b) of the Code as though they were a single plan. The Matching Contributions under this Plan and elective contributions under all other cash or deferred arrangements of the Employer made on behalf of Highly Compensated Employees shall be combined for purposes of the ACP tests. Such plan may be aggregated to satisfy Section 401(m) of the Code only if they have the same Plan Year. The ACP tests shall apply to the Matching Contributions made for the Plan Year as determined as of the end of the Plan Year. The Employer may apply the ACP tests at any other time during the Plan Year.

Salary Deferral contributions may, at the election of the Employer, be treated as Matching Contributions to the extent that (1) Salary Deferral contributions satisfy the ADP tests under Section 4.01, including those amounts treated as Matching Contributions, and (2) Salary Deferral contributions satisfy the ADP tests under Section 4.01, excluding those amounts treated as Matching Contributions. In performing the test all Participants shall be separated into two (2) groups — the Highly Compensated Employee group and the Non Highly Compensated Employee group.

Only one of the following two ACP tests needs to be satisfied for there not to be an adjustment to Salary Deferral as provided below.

Test I: The Actual Contribution Percentage for the Plan Year for the eligible Highly Compensated Employee group for the Plan Year is not more than the Actual Contribution

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Percentage for the prior Plan Year of the Non Highly Compensated Employee group for the prior Plan Year multiplied by 1.25.

Test II: The excess of the Actual Contribution percentage for the Plan Year for the eligible Highly Compensated Employee group for the Plan Year over that of the Non Highly Compensated Employee group for the prior Plan Year is not more than two percentage points, and the Actual Contribution Percentage for the Highly Compensated Employee group for the Plan Year is not more than the Actual Contribution Percentage for the prior Plan Year for the Non Highly Compensated Employee group for the prior Plan Year multiplied by 2.0.

Any adjustments to the Non Highly Compensated Employee group Actual Contribution Percentage for the prior Plan Year shall be made in accordance with IRS Notice 98-1 and any superceding guidance issued by the IRS.

For purposes of determining who is a Highly Compensated Employee, a Participant is a Highly Compensated Employee for a particular Plan Year if the Participant meets the definition of Highly Compensated Employee in effect for that Plan Year. A Participant is a Non Highly Compensated Employee if the Participant does not meet the definition of Highly Compensated Employee in effect for that Plan Year.

For purposes of determining the Actual Contribution Percentage, Matching Contributions are considered to be made for a Plan Year if made no later than the end of the twelve month period beginning on the day after the close of the Plan Year.

Upon the application of the tests at the end of the Plan Year, if neither test is met, then Matching Contributions, not previously deemed “forfeited” pursuant to Section 4.01, made on behalf of Highly Compensated Employees shall then be reduced. The reduction shall be made on the basis of the respective portions of such amounts attributable to each High Compensated Employee. The vested portion of such Matching contributions plus earnings or losses shall be distributed to the Highly Compensated Employee by the end of the next Plan Year. However, such amount must be returned within two and one-half months after the end of the Plan Year to avoid an excise tax upon the Employer. For purposes of determining the earnings or losses on Salary Deferral that will be returned to the Highly Compensated Employee, such earnings or losses shall include the Income attributable to such vested Matching Contributions for the Plan Year during which the excess Matching Contributions was made plus the Income attributable to such vested Matching Contributions from the end of the Plan Year in which they were made to the date the excess vested Matching Contributions is distributed to the Participant, as described in the regulations under Section 401(m) of the Code.

Subject to the limitation of Section 4.03, the determination of which ACP test shall be met shall be based upon the test that requires the adjustment of the smallest amount of Matching Contributions.

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The Committee shall establish rules and procedures for modifying the election with respect to the Highly Compensated Employees to ensure, to the extent possible, that either of the ACP tests will be met.

The Employer shall maintain records sufficient to demonstrate compliance with the ACP test.

All rules of application with reference to the ACP tests shall be governed by Section 401(m) of the Code and any rules and regulations issued pursuant thereto.

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ARTICLE V

INVESTMENTS

5.01 Investment Funds

The Trustee shall establish and maintain such Investment Fund(s) so designated from time to time by the Committee. Such Funds available for investment by Participants shall be communicated to the Participants by the Committee.

The Committee may, for administrative purposes, establish unit values for one or more Investment Funds (or any portion thereof) and maintain the accounts setting forth each Participant’s interest in such Investment Fund (or any portion thereof) in terms of such units, all in accordance with such rules and procedures that the Committee shall deem fair, equitable and administratively feasible. A Participant’s interest in an Investment Fund (or any portion thereof)

in the event a unit account is established shall be determined by multiplying the then value of a unit in said Investment Fund (or any portion thereof) by the number of units then credited to the Participant's Individual Account.

The Trustee shall allocate to and invest as part of each Investment Fund the contributions in accordance with the directions of the Committee. Income from investments in each Investment Fund shall be reinvested in the same Investment Funds. The Trustee shall transfer assets from one Investment Fund to the other as directed by the Committee.

5.02 Investment Fund Elections for Current Contributions

Prior to or after the date an Associate becomes a Participant, he shall have the right to direct the Committee as to the investment of that portion of his Salary Deferral and Matching Contribution (and any other Employer contributions made on his behalf) to be made on and after such date. Such election shall be made by any method approved by the Committee including but not limited to electronic or telephonic means.

For any other Associate who is a Participant, a Salary Deferral and Matching Contribution (and any other Employer contributions made on his behalf) election shall remain in effect until a subsequent election is made. Such elections may be made as frequently as daily, provided however, that they are made in accordance with specified instructions as determined by the Committee. The election described in this Section shall apply to all Salary Deferrals (and other Employer contributions made on behalf of the Participant) provided, however, that Matching Contributions shall always be made by the Employer in the form of Company Stock unless otherwise determined by the Committee. Notwithstanding any of the above within this Section 5.02, all rights of a Participant to direct the investment of any Salary Deferral (and any other Employer contributions made on behalf of the Participant) shall be subject to the provisions of Section 5.04.

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5.03 Investment Fund Elections for Prior Contributions

Any time as described in Section 5.02, each Participant shall have the right to direct the Committee to have his Individual Account invested in whole percentages in the Investment Funds specified in Section 5.01, including his Company Matching Contribution Account (effective as of February 1, 1998). Such election shall be effective as soon as administratively feasible following the receipt of such election. Receipt of such election may be in the form of paper and/or electronic or telephonic media as determined by the Committee and communicated to the Participants and shall be presumed to be accurate. An election under this Section 5.03 shall only apply to amounts actually allocated to the Individual Account of the Participant. The direction of investments for current ongoing contributions shall be as determined pursuant to Section 5.02.

5.04 Special Rules Affecting Officers and Directors

Any Participant who is at any time designated by the Company to be an "Officer" or "Director" of Big Lots, Inc., within the meaning of the Securities and Exchange Act of 1934 and the rules thereunder promulgated (generally known as "Section 16"), shall be subject to the procedures from time to time adopted by the Committee for purposes of compliance with Section 16. All accounts, and all activity with respect to accounts of Participants who are designated "Officers" or "Directors" shall be governed by such procedures, and no activity with respect to any account of such a Participant shall be permitted that does not comply with such procedures. To the extent that any provisions of this Plan create rights or privileges contrary to or greater than those permitted by the procedures adopted by the Committee, such rights or privileges shall be null and void with respect to Participants who are "Officers" and "Directors".

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ARTICLE VI

ROLLOVERS

6.01 Rollovers from Other Plans

Any Associate who has had distributed to him an "eligible rollover distribution" within the meaning of Code Section 402(c)(4) from an "eligible retirement plan" within the meaning of Code Section 402(c)(8)(B) may transfer such distribution to the Trustee.

The Committee shall develop such procedures, and may require such information from the Associate desiring to make such transfer, as it deems necessary or desirable to determine that the proposed transfer will meet the requirements of this Section and the Code, and may prohibit the rollover of after-tax amounts.

Upon approval by the Committee, the amount transferred, which must consist of cash only, shall be deposited in the Fund and shall be credited to the Associate's Rollover Account. Immediately prior to the transfer of such assets, the Associate shall give direction to the Committee as to how the amounts transferred are to be invested in the Investment Funds then available for investment under Section 5.01.

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ARTICLE VII

ALLOCATIONS TO INDIVIDUAL ACCOUNTS

7.01 Individual Accounts

The Committee shall establish and maintain an Individual Account in the name of the Participant to which the Committee shall credit all amounts allocated to each such Participant pursuant to Article III, Article IV and the following Sections of this Article VII. Each Individual Account shall be comprised of whichever of the following are applicable to a particular Participant: a Salary Deferral Account, a Matching Contribution Account, a Company Profit Sharing Contribution Account, and a Rollover Account. The Committee shall also maintain records to indicate the amount of each Participant's various accounts comprising his Individual Account invested in each Investment Fund.

7.02 Allocation of Matching Contributions and Company Profit Sharing Contributions

Matching Contributions shall be allocated as provided in Section 3.02. Company Profit Sharing Contributions (if any) shall be allocated, as of each December 31 Valuation Date, as provided in Section 3.04.

7.03 Allocation of Income

The Committee shall determine the Income for the period elapsed since the last preceding Valuation Date. Under the terms of this Plan, each Participant's Individual Account shall be valued and the Income determined on a daily basis. Such Income shall be allocated as of each Valuation date to the accounts of all Participants and Former Participants who maintain a credit balance in their Individual Account. Such allocation shall be made in relation to that portion of their Individual Accounts attributable to their Salary Deferral Account, Matching Contribution Account, Company Profit Sharing Contribution Account or Rollover Account.

7.04 Trustee and Committee Judgment Controls

In determining the fair market value of the Fund and of Individual Accounts, the Trustee and the Committee shall exercise their best judgment, and all such determinations of value (in the absence of bad faith) shall be binding upon all Participants and their Beneficiaries.

7.05 Maximum Additions

Anything herein to the contrary notwithstanding, the total Annual Additions made to the Individual Account of a Participant for any Limitation Year, when combined with any similar Annual Additions credited to the Participant for the same period from any other qualified Defined Contribution Plan maintained by the Employer, shall not exceed the lesser of:

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- (a) \$30,000 or the specific amount, determined by the Commissioner of the Internal Revenue as of January 1, of each calendar year, to apply to the Limitation Year ending with or within that calendar year (for Plan Years beginning on and after January 1, 2002, \$40,000 as adjusted for increases in the cost-of-living under Section 415(d) of the Code); or
 - (b) Twenty-five (25%) percent of the Participant's total compensation (under Section 415 of the Code) received from the Employer for such Limitation Year, (for Plan Years beginning on and after January 1, 2002, one hundred percent (100%) of the Participant's total compensation within the meaning of Section 415(c)(3) of the Code, but not taking into account contributions from medical benefits after Termination of Employment (within the meaning of Section 401(h) of the Code or Section 419A(f)(2) of the Code) that are otherwise treated as Annual Additions.

In the event a Participant is covered by one or more Defined Contribution Plans maintained by the Employer, the maximum Annual Additions as noted above shall be decreased in any other Defined Contribution Plan as determined necessary by the Employer, prior to a reduction of this Plan, to ensure that all such plans will remain qualified under the Code.

7.06 Corrective Adjustments

In the event that as of any Valuation Date corrective adjustments in the Annual Addition to any Participant's Individual Account are required as the result of a reasonable error in estimating a Participant's total Compensation, the following corrective adjustments shall be made in the following order of precedence:

- (a) The Participant's unmatched Salary Deferral (plus attributable earnings) shall be reduced to ensure compliance with Section 7.05. Any affected Salary Deferral shall be used to offset Salary Deferral for the next Limitation Year (and succeeding Limitation Years as necessary) for that Participant.
- (b) The Participant's matched Salary Deferral (plus attributable earnings) and his Matching Contributions (plus attributable earnings) shall be reduced to insure compliance with Section 7.05. Any affected Salary Deferral shall be used to offset Salary Deferral for the next Limitation year (and succeeding Limitation Years as necessary) for that Participant. Any affected Matching Contributions shall be used to reduce future Matching Contributions.
- (c) The Participant's Company Profit Sharing Contributions shall be reduced to ensure compliance with Section 7.05. Any affected Company Profit Sharing Contributions shall be returned to the Employer.

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ARTICLE VIII

DISTRIBUTIONS

8.01 Distribution upon Disability, Retirement or Termination of Employment

A Participant whose Termination of Employment is due to retirement, Disability, or for any other reason than death, shall be eligible to receive a distribution from the Plan determined as follows:

(a) If the Participant's termination is due to Disability (or Disabled), the Participant shall be eligible to receive the balance of his Salary Deferral Account, Rollover Account, Matching Contribution Account, and Company Profit Sharing Contribution Account, determined as of the Valuation Date coincident with his Termination of Employment Date (plus or minus gains or losses to the date the check is issued), less any withdrawals made on said Valuation Date. In addition, the Participant shall receive the Company Profit Sharing Contributions made for such Plan Year pursuant to Section 3.04, as of the December 31 Valuation Date immediately following the date on which his Disability occurred.

(b) If the Participant's termination is after the Participant's Normal Retirement Age, the Participant shall be eligible to receive the balance of his Salary Deferral Account, Rollover Account, Matching Contribution Account and Company Profit Sharing Contribution Account, determined as of the Valuation Date coincident with his Termination of Employment date, less any withdrawals made on said Valuation Date. In addition, the Participant, if he retires on or after his Normal Retirement Age, shall be eligible to receive the Company Profit Sharing Contributions made for such Plan Year, pursuant to Section 3.04, respectively, as of the December 31 Valuation Date immediately following the date on which his retirement occurs.

(c) If the Participant's termination is due to reason other than retirement, Disability, or death, the Participant shall be eligible to receive the balance of his Salary Deferral Account, Rollover Account, and, in accordance with Section 8.01(d), the vested portion of his Matching Contribution Account, including

Matching Contributions credited to the Participant’s Matching Contributions Account since the prior Valuation Date, and Company Profit Sharing Contribution Account, determined as of the Valuation Date coincident with his Termination of Employment date, less any withdrawals made on said Valuation Date. The Participant shall not be entitled to an allocation of Company Profit Sharing Contributions, made pursuant to Section 3.04, for the period in which his Termination of Employment occurs.

(d) Upon the Termination of Employment of a Participant under Section 8.01(c), the Participant shall be vested in a percentage of the balance of his Matching Contribution Account and Company Profit Sharing Contribution Account, based on his years of Vesting Service at his date of termination, as follows:

Years of Vesting Service At Termination	Vested Percentage of Account
Fewer than 2	0%
2	25%
3	50%
4	75%
5 or more	100%

Notwithstanding the above, a Participant shall be fully vested in his Matching Contribution Account and Company Profit Sharing Contribution Account upon attaining Normal Retirement Age. Any amount not so vested shall be held in the Participant’s Matching Contribution Account and Company Profit Sharing Contribution Account until the end of the Plan Year in which he separates from service, at which time it shall be treated as a distribution of \$0 and forfeited.

Any amounts forfeited by a Participant pursuant to this Section shall be used to reduce future Matching Contributions made pursuant to Section 3.02 and Company Profit Sharing Contributions made pursuant to Section 3.04, or at the discretion of the Company, used to reduce Plan expenses.

The Committee shall direct the Trustee to distribute to the Participant the amount determined above in accordance with Section 8.03 hereof.

8.02 Distribution upon Death

Upon the death of a Participant before Termination of Employment, the balance of such Participant’s Individual Account, as of the Valuation Date coincident with the date of death of the Participant (plus or minus gains or losses to the date the check is issued), less any withdrawals made on said Valuation Date shall become payable and the Committee shall direct the Trustee to distribute to such Participant’s Beneficiary such amount in accordance with Section 8.04 hereof. In addition, the Beneficiary shall be entitled to the Participant’s allocation of the Company Profit Sharing Contributions, made for the current Plan Year pursuant to Section 3.04, as of the December 31 Valuation Date immediately following the date on which the Participant died.

8.03 Commencement of Benefits for Terminated, Retired and Disabled Participants

Any benefits payable under this Article may be paid to a terminated, retired or Disabled Participant as soon as reasonably possible following the Participant’s actual date of Termination of Employment.

If (i) the value of the Participant’s Individual Account does not exceed \$5,000, or effective on and after March 28, 2005, \$1,000 or (ii) the Participant agrees in writing, the Committee shall direct that the distribution of the Participant’s Individual Account be paid in a lump sum to such terminated, retired, or Disabled Participant. No other benefits of any type shall be payable to

such Former Participant or his Beneficiaries. If the value of the Participant’s Individual Account exceeds \$5,000, or effective on and after March 28, 2005, \$1,000, no lump sum distribution may be made to the Participant without his written consent.

For purposes of this Section, the value of a Participant’s Individual Account shall be determined without regard to that portion of the Individual Account that is attributable to his Rollover Account.

The Committee shall provide to each such Participant whose consent is required no less than thirty (30) days and no more than ninety (90) days prior to the commencement of benefit payments, a written explanation of the material features and relative values of the forms of benefit under the Plan, and his right (if any) to defer receipt of the distribution. A Participant may elect to commence his distribution less than thirty (30) days from the date he is provided with the explanation, provided he is informed of his right to the thirty (30) day period. The Participant’s written consent to a distribution must not be made prior to the time he receives the written explanation and must not be made after ninety (90) days before benefit payments commence.

The distribution of a Participant’s Individual Account under the Plan shall begin not later than the earlier of (1) or (2) where:

- (1) is the later of
- i. the sixtieth (60th) day after the close of the Plan Year in which occurs the latest of:

(A) the attainment by the Participant of Normal Retirement Age

(B) the fifth (5th) anniversary of the date on which the participant commenced participation in the Plan, or

(C) the termination of the Participant’s service with the Employer;

ii. such date as the Participant may elect (but not earlier than the consent of a person if required above); or
- (2) is the April 1 of the calendar year following the later of:

- i. the calendar year in which the Participant attains age 70 ½, or
- ii. the calendar year in which the Participant retires, provided that such Participant is not a five percent (5%) or more owner.

8.04 Commencement of Benefits to a Beneficiary

Upon the death of a Participant, the benefits payable to his Beneficiary shall be paid as soon as reasonably possible after the Participant's date of death, in the manner specified in Section 8.05.

If the amount of the distribution is for more than \$5,000, or effective on or after March 28, 2005, \$1,000, the Beneficiary may elect to defer the distribution but not beyond the date on which the Participant would have attained age seventy and one-half (70 ½). If the Beneficiary is the spouse

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of the Participant and such spouse dies before payments occur, the distribution shall be made as if the spouse had been the Participant.

8.05 Methods of Payment

All distributions from this Plan shall be paid as a lump sum distribution in cash or in kind (or in combination thereof) to a Participant or Beneficiary.

Effective for distributions beginning prior to December 1, 2001, at the election of the Participant or Beneficiary, distributions from this Plan shall be made in monthly, quarterly, or annual installments over a fixed period of time not to exceed the lesser of (i) ten (10) years, (ii) the life expectancy of the Participant, or (iii) the joint live and last survivor expectancy of the Participant and his designated Beneficiary. Furthermore, upon the written request of the Participant or Beneficiary (if applicable), the Committee shall accelerate payment of all or any portion of the Participant's unpaid Individual Account.

For purposes of this Section, distribution of the note evidencing a loan under Section 9.04 shall be a "deemed" distribution of cash equal to the outstanding loan balance.

After December 31, 1992, any recipient of an "eligible rollover distribution" may elect, at the time and in the manner prescribed by the Committee, to have any portion of that distribution paid directly to any eligible retirement plan he designates.

(3) Definitions

- (a) Eligible Rollover Distribution means any distribution of all or any portion of the balance to the credit of the Distributee, except (I) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten (10) years or more (II) any portion of the distribution required to be made under Section 401(a)(9) of the Code, or (III) any hardship distribution described in Section 401(k)(2)(B)(i) (iv) of the Code received after December 31, 1998, or (IV) any portion of the distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).
- (b) Eligible Retirement Plan means an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, (effective for distributions made after December 31, 2001, an annuity contract described in Section 403(b) of the Code, and an eligible plan under Section 457(b) of the Code that is maintained by a state or political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and that agrees to separately account for

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amounts transferred into such plan from this Plan), or a qualified plan and trust described in Section 401(a) of the Code, that will accept the Distributee's Eligible Rollover Distribution. However, if the Eligible Rollover Distribution is being made to a surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

- (c) Distributee means an Associate or former Associate and, with respect to their interests only, the Associate's or former Associate's surviving spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code.
- (d) Direct Rollover means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

8.06 Reemployment of a Terminated Participant

A terminated Participant who terminates employment with the Company or Employer with less than a one hundred (100%) vested interest in his Matching Contribution Account and/or Company Profit Sharing Contribution Account, who received a distribution of his vested interest, and who resumes employment with the Employer prior to incurring five (5) consecutive one year Breaks in Service, may repay such distribution from the said accounts and receive the vested value of his said accounts (including previously forfeited amounts) based on his total years of Vesting Service when he again terminates employment (including Vesting Service prior to termination). Repayment hereunder must be made by the earlier of the five (5) years from the date of reemployment or a period of five (5) consecutive one year Breaks in Service. A Participant who terminated with a zero percent (0%) vested interest in his Matching Contribution Account and/or Company Profit Sharing Contribution Account, and who resumes employment with the Employer prior to incurring five (5) consecutive Breaks in Service, shall receive the vested value of said accounts (including previously forfeited amounts) based on his total years of Vesting Service when he again terminates employment (including years of Vesting Service prior to termination).

Restoration of forfeited amounts will come from forfeitures in the year in which the Participant makes repayment under this Section and, to the extent such forfeitures are not sufficient, from a special Employer contribution.

A terminated Participant who is reemployed and again becomes a Participant after incurring five (5) or more consecutive one year Breaks in Service shall not be allowed to repay any amount distributed to him and shall not have any amount forfeited restored to his Matching Contribution Account and/or Company Profit Sharing Contribution Account.

8.07 Payments to Minors and Incompetents

In case any person entitled to receive payment under the Plan shall be a minor, the Committee, in its discretion, may dispose of such amount in any one or more of the following ways:

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- (a) By payment thereof directly to such minor;
 - (b) By application thereof for benefit of such minor; or
 - (c) By payment thereof to either parent of such minor or to any adult person with whom such minor may at the time be living or to any person who shall legally be qualified and shall be acting as guardian of the person or the property of such minor; provided only that the parent or adult person to whom any amount shall be paid shall have advised the Committee in written affidavit that he will hold or use such amount for the benefit of such minor.

In the event that it shall be found that a person entitled to receive payment under the Plan is physically or mentally incapable of personally receiving and giving a valid receipt for any payment due (unless prior claim therefore shall have been made by a duly qualified person or other legal representative), such payment may be made to the spouse, son, daughter, parent, brother, sister or other person deemed by the Committee to have incurred expense for such person otherwise entitled to payment.

8.08 Required Distributions for Active Participants

Distributions of an active Participant's Individual Account must commence no later than (i) the first day of April following the calendar year in which such individual attains age seventy and one-half (70 ½), or (ii) the date on which the Participant terminates employment with the Employer; provided, however, that (ii) above shall not apply to a Participant who is a five percent (5%) owner. For distributions to a Participant who is a five percent (5%) owner, they shall be made in a lump sum in cash or in kind as of April 1 (for the initial distribution) and as of each December 1 thereafter.

For a Participant who is not a five percent (5%) owner, the Participant may elect to commence receiving benefits under (i) above in a manner described in Section 8.05; provided, however, that a Participant may elect to receive the minimum required distribution as determined under regulations issued by the Secretary of the Treasury, of his delegate, under (i) above and upon actual Termination of Employment with the Employer, elect a manner of distribution as described in Section 8.05. Such election shall be made on a form and in a manner as prescribed by the Committee. "Five percent (5%) owner" shall have the meaning as set forth in Code Section 416.

All distributions required under this Article VIII shall be determined and made in accordance with the Income Tax Regulations under Section 401(a)(9) of the Code including the minimum distribution incidental benefit requirements of Section 1.401(a)(9)-2 of said Regulations, and Section 8.12.

8.09 Unclaimed Benefits

If after diligent effort, a Participant, spouse or Beneficiary who is entitled to a distribution cannot be located as of the date such distribution was to commence, the distributable Individual Account

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balance shall be forfeited and used to reduce the Employer's Matching Contributions. Provided, however, that any such forfeited amounts shall be reinstated and become payable if a claim is made by the Participant or Beneficiary for such Individual Account. The Committee shall prescribe uniform and nondiscriminatory rules for implementing this provision.

8.10 Account Valuation

The Plan and its Investment Funds shall be valued on a daily basis and in a manner consistent with acceptable practices in the industry.

8.11 Termination of Employment Due to Merger, Consolidation, or Spinoff

Effective as of December 31, 2001, in the event a Participant in this Plan terminates employment with the Employer by reason of merger, consolidation or spinoff of the Employer as an Affiliate of the Company, but continues to work for the Employer after said merger, consolidation or spinoff, such termination shall be deemed to be a Termination of Employment for purposes of this Plan.

8.12 Minimum Distribution Requirements

(a) General Requirements

- (1) Effective Date. The provisions of this Section 8.12 will apply for purposes of determining required minimum distributions for calendar years commencing on or after January 1, 2003.
- (2) Precedence. The requirements of this Section 8.12 will take precedence over any inconsistent provisions of the Plan.
- (3) Requirements of Treasury Regulations Incorporated. All distributions required under this Section 8.12 will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Internal Revenue Code.
- (4) TEFRA Section 242(b)(2) Elections. Notwithstanding the other provisions of this Plan, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act (TEFRA) and the provisions of the Plan that relate to Section 242(b)(2) of TEFRA.

(b) Time and Manner of Distribution

(1) Required Beginning Date. A Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.

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(2) Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(A) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, then, except as provided in subsection (f) below, distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70½, if later.

(B) If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, then, except as provided in subsection (f) below, distributions to the designated beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(C) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(D) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this subparagraph (2), other than subparagraph (2)(A) above, will apply as if the surviving spouse were the Participant.

For purposes of this subparagraph (2) and subsection (d) of this Section 8.12, unless subparagraph (D) above applies, distributions are considered to begin on the Participant's Required Beginning Date. If subparagraph (D) above applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under subparagraph (A) above. To the extent that the Plan permits distributions in the form of an annuity, if distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's Required Beginning Date or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under subparagraph (A) above, the date distributions are considered to begin is the date distributions actually commence.

(3) Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company (but only to the extent permitted by the provisions of the Plan other than this Appendix) or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year, distributions will be made in accordance with subsection (c) and (d) of this

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Section 8.12. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations.

(c) Required Minimum Distributions During Participant's Lifetime

(1) Amount of Required Minimum Distribution for Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each Distribution Calendar Year is the lesser of:

(A) the quotient obtained by dividing the Participant's account balance by the distribution period in the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

(B) if the Participant's sole Designated Beneficiary for the Distribution Calendar Year is the Participant's spouse, the quotient obtained by dividing the Participant's account balance by the number in the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the Distribution Calendar Year.

(2) Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this subsection (c) beginning with the first Distribution Calendar Year and up to and including the Distribution Calendar Year that includes the Participant's date of death.

(d) Required Minimum Distributions After Participant's Death

(1) Death On or After Date Distributions Begin.

(A) Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's Designated Beneficiary, determined as follows:

(i) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

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(ii) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, the remaining life expectancy of the surviving spouse is calculated for each Distribution Calendar Year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For Distribution Calendar Years after the year of the surviving spouse's death, the remaining life expectancy

of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(iii) If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, the Designated Beneficiary's remaining life expectancy is calculated using the age of the Beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(B) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no Designated Beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) Death Before Date Distributions Begin.

(A) Participant Survived by Designated Beneficiary. Except as provided in subsection (f) below, if the Participant dies before the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the remaining life expectancy of the Participant's designated Beneficiary, determined as provided in paragraph (1) above.

(B) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(4) Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole Designated Beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under subsection (b)(2)(A) above, this paragraph (4) will apply as if the surviving spouse were the Participant.

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(e) Definitions

(1) Designated Beneficiary means the individual who is designated as the Beneficiary under the Plan and is the Designated Beneficiary under Section 401(a)(9) of the Internal Revenue Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.

(2) Distribution Calendar Year means a calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin under subsection (b)(2) above. The required minimum distribution for the Participant's first Distribution Calendar Year will be made on or before the Participant's Required Beginning Date. The required minimum distribution for other Distribution Calendar Years, including the required minimum distribution for the Distribution Calendar Year in which the Participant's Required Beginning Date occurs, will be made on or before December 31 of that Distribution Calendar Year.

(3) Life Expectancy means the Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations.

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(4) Participant's Account Balance means the account balance as of the last Valuation Date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the account balance as of dates in the valuation calendar year after the Valuation Date and decreased by distributions made in the valuation calendar year after the Valuation Date. The account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the Distribution Calendar Year if distributed or transferred in the valuation calendar year.

(5) Required Beginning Date means, for a Participant who is not a 5% Owner, the April 1 of the calendar year following the later of (a) the calendar year in which the Participant attains age 70½; or (b) the calendar year in which the Participant retires. The Required Beginning Date of a Participant who is a 5% Owner means the April 1 of the calendar year following the calendar year in which the Participant attains age 70½. Notwithstanding the provisions of this paragraph, distribution may also be made to a Participant in accordance with a valid election made by the Participant pursuant to Section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act of 1982.

(f) Election

(1) Election to Apply 5-Year Rule to Distributions to Designated Beneficiaries. Notwithstanding any provision in this Section 8.12 to the contrary, to the extent that the Plan does not provide that a Participant may elect forms of distributions that provide for payments over a period greater than 5 years, if the Participant dies before distributions begin, distributions to the Participant's Beneficiary are not required to begin by the time period set forth in subsection (b) above, but the Participant's entire interest will in all cases be distributed to the beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

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ARTICLE IX

WITHDRAWALS

9.01 Withdrawals Generally

A Participant may make application to the Committee for withdrawal of all or a portion of those of his Individual Accounts specified in Section 9.02 or 9.03 without Termination of Employment with the Employer, but only in such amounts and under such conditions as specified in such Sections. Withdrawals may

be made only in cash.

Notwithstanding the above paragraph, a Participant may withdraw a portion of his Rollover Account at any time. Such withdrawal shall be limited to the balance in his Rollover Account as of the Valuation Date immediately preceding the date of such withdrawal. Any withdrawal from the Participant's Rollover Account will be made proportionately from the Investment Funds in which his Rollover Account is invested.

9.02 Hardship Withdrawal

Except as otherwise provided in this Section, upon proper application by a Participant to the Committee, the Committee in its sole discretion may permit the Participant to withdraw a portion of the balance of his Salary Deferral Account, other than Income allocated to such Account, determined as of the Valuation Date coincident with the date of application.

The reason for such withdrawal must be to enable the Participant to meet unusual or special situations in his financial affairs resulting in immediate and heavy financial needs of the Participant. Such situations shall be limited to:

- (a) medical expenses (described in Section 213(d) of the Code) incurred by the Participant, the Participant's spouse or any dependents of the Participant (as defined in Section 152 of the Code);
- (b) purchase (excluding mortgage payments) of a principal residence for the Participant;
- (c) payment of tuition for the next semester or quarter of post-secondary education for the Participant, his or her spouse, children, or dependents;
- (d) the need to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence; or
- (e) any additional items that may be added to the list of deemed immediate and heavy financial needs by the Commissioner of the Internal Revenue through publication of rulings, notices, and other documents of general applicability.

Any withdrawal hereunder may not exceed the amount required to meet the immediate financial need created, and provided further that such amount must not be reasonably available from other resources of the Participant. In granting or refusing any request for withdrawal or in shortening the notice period, the Committee shall apply uniform standards consistently and such

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discretionary powers shall not be applied so as to discriminate in favor of officers, stockholders, or Highly Compensated Employees.

The withdrawals under this Section shall in no way affect the Participant's continued participation in this Plan except by the reduction in account balances caused by such withdrawals and except as provided below.

If a Participant withdraws Salary Deferral pursuant to the provisions of this Section, the following shall apply:

- (a) A withdrawal may be made pursuant to this Section only after the Participant has obtained all distributions other than hardship distributions, including withdrawals available pursuant to Section 9.01, loans pursuant to Section 9.04, all other nontaxable loans available under all other plans maintained by the Employer.
- (b) Salary Deferral under this Plan shall be suspended until the Entry Date that is at least twelve (12) months (for hardship withdrawals made after December 31, 2001, at least six (6) months) after receipt of the withdrawal of Salary Deferral pursuant to this Section.

Any withdrawal shall be made proportionately from the Investment Funds in which the Participant's Salary Deferral is invested.

9.03 Withdrawals After Age 59 ½

Once the Participant reaches age fifty-nine and one-half (59 1/2) he may apply for a withdrawal of any portion of the vested balance of his Individual Account. Any such withdrawal will be made first from the Participant's Rollover Account; second from his Salary Deferral Account; third, from his Matching Contribution Account; and, lastly, from his Company Profit Sharing Contribution Account. The withdrawal from any of these Accounts shall be made proportionately from the Investment Funds in which such Accounts are invested.

9.04 Participant Loans

The Committee is hereby authorized to establish and administer a loan program and to establish rules and procedures for such loan program. Such rules, which are incorporated herein by reference, shall meet all the pertinent requirements of the Code and ERISA, as amended, and shall be interpreted, wherever possible, to comply with the terms of said laws, as amended, and all formal regulations and rulings issued thereunder.

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ARTICLE X

FUNDING

10.01 Contributions

Contributions by the Employer and by the Participants as provided for in Article III shall be paid over to the Trustee. All contributions by the Employer to the Fund shall be irrevocable, except as herein provided, and may be used only for the exclusive benefit of the Participants, Former Participants, and their Beneficiaries.

10.02 Trustee

The Company has entered into an agreement with the Trustee whereunder the Trustee will receive, invest and administer as a trust fund contributions made under this Plan in accordance with the Trust Agreement.

Such Trust Agreement is incorporated by reference as a part of the Plan, and the rights of all persons hereunder are subject to the terms of the Trust Agreement. The Trust Agreement specifically provides, among other things, for the investment and reinvestment of the Fund and the Income thereof, the management of the Fund, the responsibilities and immunities of the Trustee, removal of the Trustee and appointment of a successor, accounting by the Trustee and the disbursement of the assets of the Fund.

The Trustee shall, in accordance with the terms of such Trust Agreement, accept and receive all sums of money paid to it from time to time by the Employer, and shall hold, invest, reinvest, manage and administer such moneys and the increment, increase, earnings and Income thereof as a trust fund for the exclusive benefit of the Participants, Former Participants and their Beneficiaries or the payment of reasonable expenses of administering the Plan.

10.03 Funding Policy

The Committee shall periodically establish and adopt procedures necessary for implementing a funding policy(ies) by reviewing the recommendations of the consultants selected by it, if any, and defining the actions necessary to implement a funding policy complying with Title I, Part 3 of ERISA , as amended. A written record shall be made of the actions taken to adopt and implement the funding policy(ies), including the reasons for such decisions.

ARTICLE XI

FIDUCIARIES

11.01 General

Each Fiduciary who is allocated specific duties or responsibilities under the Plan or any Fiduciary who assumes such, a position with the Plan shall discharge his duties solely in the interest of the Participants, Former Participants, and Beneficiaries and for the exclusive purpose of providing such benefits as stipulated herein to such Participants, Former Participants and Beneficiaries, or defraying reasonable expenses of administering the Plan. Each Fiduciary, in carrying out such duties and responsibilities, shall act with the care, skill, prudence, and diligence under the circumstance then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in exercising such authority or duties.

A Fiduciary may serve in more than one Fiduciary capacity and may employ one or more persons to render advice with regard to his Fiduciary responsibilities. If the Fiduciary is serving as such without compensation, all expenses reasonably incurred by such Fiduciary shall be paid from the Fund or, at the Company's discretion, by the Employer.

A Fiduciary may delegate any of his responsibilities for the operation and administration of the Plan. In limitation of this right, the Committee may not allocate any responsibilities as contained herein relating to the management or control of the Fund except through the employment of an Investment Manager as provided in Section 11.03 and in the Trust Agreement relating to the Fund. However, the Committee may delegate to one or more persons or institutions certain administrative functions pursuant to a written agreement between said person(s) and/or institutions and the Committee.

11.02 Company

The Company established and currently maintains this Plan for the exclusive benefit of its Associates and the Associates of the other Employers and of necessity retains control of the operation and administration of the Plan. The Company, in accordance with specific provisions of the Plan, has as herein indicated, delegated certain of these rights and obligations to the Trustee, and the Committee and these parties shall be solely responsible for these, and only these, delegated rights and obligations.

The Employer shall supply such full and timely information for all matters relating to the Plan as (a) the Committee, (b) the Trustee, and (c) the accountant engaged on behalf of the Plan by the Company may require for the effective discharge of their respective duties.

11.03 Trustee

The Trustee shall be retained as a directed Trustee as defined under Section 403(a) of ERISA in accordance with the Trust Agreement, shall have exclusive authority and discretion to manage and control the Fund, except that the Committee may in its discretion employ at any time and from time to time an Investment Manager (as defined in Section 3(38) of ERISA, as amended) to direct the Trustee with respect to all or a designated portion of the assets comprising the Fund.

11.04 Administrative Committee

The Board of the Company shall appoint a committee of not less than three (3) persons to hold office for the pleasure of the Company, such committee to be known as the Committee. No compensation shall be paid to members of the Committee from the Fund for service on such Committee. The Committee shall choose from among its members a chairman. The Committee shall also appoint a secretary, who need not be a member of the Committee. Any action of the Committee shall be determined by the vote of a majority of its members. Either the chairman or another Committee member may execute any certificate or written direction on behalf of the Committee.

The Committee shall hold meetings upon such notice, as such place and at such time as the Committee may from time to time determine. Meetings shall be called by the chairman or any two (2) members of the Committee. A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business.

In accordance with the provisions hereof, the Committee has been delegated certain administrative functions relating to the Plan with all powers necessary to enable it properly to carry out such duties. The Committee shall have no power in any way to modify, alter, add to or subtract from, any provisions of the Plan. The Committee shall have the power to construe the Plan and to determine all questions that may arise thereunder relating to (a) the eligibility of the individuals to participate in the Plan and, (b) the amount of benefits to which any Participant, Former Participant or Beneficiary may become entitled hereunder. All disbursements by the Trustee, except for the ordinary expenses of administration of the Fund or the reimbursement of reasonable expenses at the direction of the Company, as provided herein, shall be made upon, and in accordance with, the written directions of the Committee. When the Committee

is required in the performance of its duties hereunder to administer or construe, or to reach a determination, under any of the provisions of the Plan, it shall do so on a uniform, equitable and nondiscriminatory basis.

The Committee shall establish rules and procedures to be followed by the Participants, Former Participants, and Beneficiaries in filing applications for benefits and for furnishing and verifying proofs necessary to establish age, Vesting Service, and any other matters required in order to establish their rights to benefits in accordance with the Plan. Additionally, the Committee shall establish accounting procedures for the purpose of making the allocations, valuations and adjustments to the Participants' accounts. Should the Committee determine that the strict application of its accounting procedures will not result in an equitable and nondiscriminatory

allocation among the accounts of Participants, it may modify its procedures for the purpose of achieving an equitable and nondiscriminatory allocation in accordance with the general concepts of the Plan, provided however that such adjustments to achieve equity shall not reduce the vested portion of a Participant's interest.

The Committee may employ such counsel, accountants, and other agents as it shall deem advisable. The Committee may also engage the services of an Investment Manager(s) as defined in Section 3(38) of ERISA, each of whom shall have the power and authority to manage, acquire or dispose (or direct the Trustees with respect to acquisition or disposition) of any Plan asset under its control. The Company shall pay, or cause to be paid from the Trust Fund (or from the Employer is so determined by the Committee), the compensation of such counsel, accountants, and other agents and any other expenses incurred by the Committee in the administration of the Plan.

The Committee shall also have the authority and discretion to engage such person(s) or institutions to perform, without discretionary authority or control, certain administrative functions within the framework of policies, interpretations, rules, practices, and procedures made by the Committee or other Fiduciary. Any action made or taken by such person(s) or institutions may be appealed by an affected Participant to the Committee in accordance with the claims review procedures provided in Section 11.05. Any decisions requiring interpretation of this Plan's provisions that have not previously been made by the Committee shall be made only by the Committee.

11.05 Claims Procedures

The Committee shall receive all applications for benefits. Upon receipt by the Committee of such an application, it shall determine all facts that are necessary to establish the right of an applicant to benefits under the provisions of the Plan and the amount thereof as herein provided. Upon request, the Committee will afford the applicant the right of a hearing with respect to any finding of fact or determination. The applicant shall be notified in writing of any adverse decision with respect to his claim within 90 days after its submission. The notice shall be written in a manner calculated to be understood by the applicant and shall include:

- (a) The specific reasons(s) for the denial;
- (b) Specific references to the pertinent Plan provisions on which the denial is based;
- (c) A description of any additional material or information necessary for the applicant to perfect the claim and an explanation of why such material or information is necessary; and
- (d) An explanation of the Plan's claim review procedures.

If special circumstances require an extension of time for processing the initial claim, a written notice of the extension and the reason therefore shall be furnished to the claimant before the end of the 90 day period. In no event shall such extension exceed 90 days.

In the event a claim for benefits is denied or if the applicant has had no response to such claim within 90 days of its submission (in which case the claim for benefits shall be deemed to have been denied), the applicant or his duly authorized representative, at the applicant's sole expense, may appeal the denial to the Committee within 60 days of the receipt of written notice of denial or 60 days from the date such claim is deemed to be denied. In pursuing such appeal the applicant or his duly authorized representative:

- (a) May request in writing that the Committee review the denial;
- (b) May review pertinent documents; and
- (c) May submit issues and comments in writing.

The decision on review shall be made within 60 days of receipt of the request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than 120 days after receipt of a request for review. If such an extension of time is required, written notice of the extension shall be furnished to the claimant before the end of the original 60 day period. The decision on review shall be made in writing, shall be written in a manner calculated to be understood by the claimant, and shall include specific references to the provisions of the Plan on which such denial is based. If the decision on review is not furnished within the time specified above, the claim shall be deemed denied on review.

11.06 Records

All acts and determinations of the Committee shall be duly recorded by the secretary thereof and all such records together with such other documents as may be necessary in exercising its duties under the Plan shall be preserved in the custody of such secretary. Such records and documents shall at all times be open for inspection and for the purpose of making copies by any person designated by the Company. The Committee shall provide such timely information, resulting from the application of its responsibilities under the Plan, as needed by the Trustee and the accountant engaged on behalf of the Plan by the Company, for the effective discharge of its duties.

ARTICLE XII

AMENDMENT AND TERMINATION OF THE PLAN

12.01 Amendment of the Plan

The Company shall have the right at any time by action of the Board to modify, alter or amend the Plan in whole or in part; provided, however, that the duties, powers and liability of the Trustee hereunder shall not be increased without its written consent; and provided, further, that the amount of benefits that, at the time of any such modification, alteration or amendment, shall have accrued for any Participant, Former Participant or Beneficiary hereunder shall not be adversely affected thereby; and provided, further, that no such amendment shall have the effect of reverting in the Employer any part of the principal or Income of the Fund. No amendment to the Plan shall decrease a Participant's account balance or eliminate an optional form of distribution, except as otherwise provided by law and this Plan.

12.02 Termination of the Plan

The Company expects to continue the Plan indefinitely, but continuance is not assumed as a contractual obligation and each Employer reserves the right at any time by action of its Board to terminate the Plan as applicable to itself. If an Employer terminates or partially terminates the Plan or permanently discontinues its contributions at any time, each Participant affected thereby shall be then vested with the amount to the credit in his Individual Account.

In the event an Employer terminates its participation in the Plan, the Committee shall value the Fund as of the termination of participation date. That portion of the Fund applicable to any Employer for which the Plan has not been terminated shall be unaffected. That portion of the Fund applicable to the Employer for which the Plan has been terminated will be treated in one of the following ways, as determined by the Committee:

- (a) The Individual Accounts of the Participants, Former Participants, and Beneficiaries shall continue to be administered as a part of the Fund; or
- (b) The Individual Accounts of active Participants may be transferred to another plan of the Employer who terminated participation in the Plan if such Plan is qualified under Section 401(a) of the Code; or
- (c) The Individual Accounts of active Participants may be distributed to them in a lump sum if (i) no successor plan is established that is qualified under Section 401(a) of the Code, or (ii) the termination of the Employer in the Plan results from the sale of a subsidiary, or a sale of substantially all of the Employer's assets used in a trade or business.

12.03 Return of Contributions

Contributions made to this Plan by the Employer shall be returned to the Employer under the following circumstances:

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- (a) All contributions, made to this Plan are conditioned upon the Employer obtaining a deduction under Section 404 of the Code in an equal amount for the Employer's taxable year ending with or within the Plan Year for which the contribution is made. If all or any portion of the Employer's contribution is not deductible under Section 404 of the Code for such year, the amount so determined to be nondeductible shall be returned to the Employer within one year of the disallowance of the deduction by the Internal Revenue Service.
 - (b) At the direction of the Employer, a contribution made by the Employer due to a mistake of fact shall be returned to the Employer if the Committee so determines that such mistake existed at the time of the contribution, provided that the contribution is returned to the Employer within 12 months of the date it was made to the Fund.
 - (c) All contributions made to this Plan are conditioned upon initial qualification of the Plan under Section 401(a) of the Code, but only if the application for qualification is made by the time prescribed by law for the filing of the Employer's tax return for the taxable year in which the Plan is adopted. If the Plan fails to qualify under Section 401(a) of the Code, all amounts contributed during the time the Plan failed to qualify shall be returned to the Employer within one year after the date of the denial of the initial qualification of the Plan by the Internal Revenue Service.

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ARTICLE XIII

PROVISIONS RELATIVE TO EMPLOYERS INCLUDED IN THE PLAN

13.01 Method of Participation

Any Affiliate, with the approval of the Board, by appropriate action of its own board of directors, may become a party to the Plan, by adopting the Plan for its Associates. Any Affiliate that becomes a party to the Plan shall thereafter promptly deliver to the Trustee provided for in Article X hereof a certified copy of the resolutions or other documents evidencing its adoption of the Plan or a similar plan and also a written instrument showing the Board's approval of such Affiliate's becoming a party to the Plan.

13.02 Withdrawal

Any one or more of the Employers included in the Plan may withdraw from the Plan at any time by giving six months advance notice in writing of its or their intention to withdraw to the Board and the Committee (unless a shorter notice shall be agreed to by the Board).

Upon receipt of notice of any such withdrawal, the Committee shall certify to the Trustee the equitable share of such withdrawing Employer in the Fund, as applicable, to be determined by the Committee. The Trustee shall thereupon set aside from the Fund then held by it, such securities and other property as it shall, in its sole discretion, deem to be equal in value to such equitable share. If the Plan is to be terminated with respect to such Employer, the amount set aside shall be dealt with in accordance with the provisions of Section 12.02. If the Plan is not to be terminated with respect to such Employer, the Trustee shall turn over such amount to such trustee as may be designated by such withdrawing Employer, and such securities and other property shall thereafter be

held and invested as a separate trust, and shall be used and applied according to the terms of the new agreement and declaration of trust between the Employer and the trustee so designated.

Neither the segregation of the Fund assets upon the withdrawal of an Employer, nor the execution of a new agreement and declaration of trust pursuant to any of the provisions of this Section, shall operate to permit any part of the corpus or Income of the Fund to be used for or diverted to purposes other than for the exclusive benefit of Participants, Former Participants and Beneficiaries.

ARTICLE XIV

MISCELLANEOUS

14.01 Governing Law

The Plan shall be construed, regulated and administered according to the laws of the State of Ohio, except in those areas preempted by the laws of the United States of America.

14.02 Construction

The headings and subheadings in the Plan have been inserted for convenience of reference only and shall not affect the construction of the provisions hereof. In any necessary construction the masculine shall include the feminine and the singular shall include the plural, and vice versa.

14.03 Administration Expenses

The expenses of administering the Fund and the Plan, to the extent provided by law, shall be paid for from the Fund, unless the Company directs that the expense (or any part of them) be paid by the Employer. The Trustee, investment manager and recordkeeper shall receive reasonable compensation as may be agreed upon from time to time between the Company (or the Committee) and such service provider(s).

14.04 Participant's Rights

No Participant in the Plan shall acquire any right to be retained in the Employer's employ by virtue of the Plan, nor upon his dismissal, or upon his voluntary Termination of Employment, shall he have any right or interest in and to the Fund other than as specifically provided for herein. The Employer shall not be liable for the payment of any benefit provided for herein; all benefits hereunder shall be payable only from the Fund.

14.05 Spendthrift Clause

To the extent permitted by law, none of the benefits, payments, proceeds, or distributions under this Plan shall be subject to the claim of any creditor of the Participant, Former Participant, or any Beneficiary hereunder or to any legal process by any creditor of such Participant, Former Participant, or any such Beneficiary. Neither shall such Participant, Former Participant or any such Beneficiary have any right to alienate, commute, anticipate, or assign any of the benefits, payments, proceeds or distributions under this Plan. The preceding sentence shall also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant pursuant to a domestic relations order, unless such order is determined to be a qualified domestic relations order, as defined in Section 414(p) of the Code, or any domestic relations order entered before January 1, 1985, under which payments have commenced prior to such date. The rights of an "alternate payee" as such term is defined in Section 414(p)(8) of the

Code, with respect to the amount assigned by a qualified domestic relations order pursuant to the preceding sentence shall be limited to those provided for in Section 14.11 below.

14.06 Merger, Consolidation, or Transfer

In the event of the merger or consolidation of the Plan with another plan or transfer of assets or liabilities from the Plan to another plan, each then Participant, Former Participant or Beneficiary shall not, as a result of such event, be entitled on the day following such merger, consolidation or transfer under the termination of the Plan provisions to a lesser benefit than the benefit he was entitled to on the date immediately prior to the merger, consolidation or transfer if the Plan had then terminated.

14.07 Counterparts

The Plan and the Trust Agreement may be executed in any number of counterparts, each of which shall constitute but one and the same instrument and may be sufficiently evidenced by any one counterpart.

14.08 Limitation of Liability

Neither the Company, any Employer, the Committee members nor any Associate or director of the Company or any Employer shall incur any liability individually or on behalf of other individuals or on behalf of the Company for any act or failure to act unless such act or failure to act constitutes a lack of good faith, willful misconduct or gross negligence in relation to the Plan or Fund.

14.09 Indemnification

The Committee members and any Associate, officer, or director of the Company or any Employer shall be indemnified by the Fund, or at the election of the Company, by the Company against any and all liabilities arising by reason of any act or failure to act in relation to the Plan or Fund unless such act or failure to act is due to his own gross negligence or willful misconduct or lack of good faith in relation to the Plan or Fund. Such indemnification shall include without limitation, expenses reasonably incurred in the defense of any claim relating thereto, attorney and legal fees and amounts paid in any settlement or compromise; provided, however, that the foregoing shall be of no force and to the extent that it is not permitted by applicable law. To the extent the Fund assets are insufficient or if indemnification is not permitted by applicable law, the Company shall then be responsible for such indemnification. The indemnification provided by this Section shall not be deemed exclusive of any other rights to which those indemnified may be entitled and shall continue as to

a person who has ceased to be a director, officer, member, agent or Associate of the Committee or an officer, director, or Associate of the Company and shall inure to the benefit of his heirs and representatives.

14.10 Compliance with Employee Retirement Income Security Act (ERISA) of 1974

Anything herein to the contrary notwithstanding, nothing above or any other provision contained elsewhere in the Plan shall relieve a Fiduciary or other person of any responsibility or liability for an responsibility, obligation or duty imposed upon him pursuant to Title I, Part 4 of ERISA, as amended. Furthermore, anything in this plan to the contrary notwithstanding, if any provision of this Plan is voided by Section 410 or 411 of ERISA, such provision(s) shall be of no force and effect only to the extent that it is voided by such Section.

14.11 Payment to Alternate Payee

If Section 14.05 applies, the account of the alternate payee shall be established and administered in the following manner:

- (a) Unless otherwise specified, an account shall be established in the name of the alternate payee by transferring the necessary assets from the Individual Account of the Participant to the account of the alternate payee proportionately from each Investment Fund.
- (b) The account of the alternate payee will share in the allocation of adjustments pursuant to Section 7.03.
- (c) The alternate payee shall be eligible to receive benefits from the Plan at the same time the Participant would become eligible to receive benefits from the Plan pursuant to Article VIII. However, the alternate payee may choose to receive an immediate lump sum.
- (d) The alternate payee shall be permitted to make investment elections pursuant to Section 5.03.
- (e) The alternate payee shall not be permitted to make any withdrawals or loans as provided in Article IX.

14.12 Securities Voting Rights

With respect to all securities (including Company Stock) held by the Trustee under the terms of the Plan, voting and all other rights incident thereto shall be exercised by the Trustee, but only to the extent as specifically directed by the Committee.

14.13 Approved Alternative Methods of Written Elections by Participants

Notwithstanding any provision in this Plan to the contrary, Salary Deferral arrangements and changes and modifications thereto, investment elections, changes or transfers, loans, withdrawals, and any other decision or election by a Participant (or Beneficiary) under this Plan may be accomplished by electronic or telephonic means that are not otherwise prohibited by law and that are in accordance with procedures and/or systems approved or arranged by the Committee or its delegates.

14.14 Mistaken Contributions and Allocations

If, after the Employer's contribution has been made and allocated, it should appear that, through oversight or a mistake of fact or law, a Participant (or an Associate who should have been considered a Participant) who should have been entitled to share in such contribution, receives no allocation or received an allocation that was less than he should have received, the Company may, at its election and in lieu of reallocating such contribution, make a special make-up contribution for the Individual Account of such Participant in an amount sufficient to provide the same addition to the Individual Account as the Participant should have received. Similarly, if a Participant received an allocation that was more than the Participant should have received (or an Associate was inappropriately included in the Plan), the Company, at its election, may reallocate such contribution, offset other Company contributions against such allocation, or use such allocation to pay Plan expenses.

ARTICLE XV

TOP HEAVY PLAN

15.01 Requirements

Notwithstanding anything in this Plan to the contrary, if this Plan when combined with all other plans required to be aggregated pursuant to Section 416 of the Code is deemed to be Top Heavy for any Plan Year, the following shall apply to such Plan Year and all future Plan Years:

- (a) Regardless of hours worked, each active Participant who is not a Key Employee shall be entitled to a minimum allocation of contributions (excluding Salary Deferral equal to the lesser if (i) three percent of the Participant's Compensation for the Plan Year; or (ii) the highest percentage of compensation contributed on behalf of a Key Employee (including Salary Deferral contributions).
- (b) The multiplier of 1.25 in Section 7.07 shall be reduced to 1.0 unless (i) all plans required or permitted to be aggregated pursuant to Section 416 of the Code, when aggregated are 90% or less Top Heavy, and (ii) the minimum accrued benefit referenced in Section 15.01(a) above is modified by substituting such minimum accrued benefit with the applicable minimum accrued benefit as provided in the Big Lots, Inc. Amended and Restated Defined Benefit Pension Plan.

Effective for Plan Years beginning after December 31, 2001, the Top Heavy requirements of Section 416 of the Code and therefore the requirements of this Article XV shall not apply in any Plan Year beginning on and after January 1, 2002 that meets the requirements of Section 401(k)(12) of the Code and

matching contributions that meet the requirements of Section 401(k)(11) of the Code.

ARTICLE XVI

ADOPTION OF THE PLAN

As evidence of its adoption of the Plan, the Company has caused this instrument to be signed by its officers duly authorized, effective as of January 1, 2005.

BIG LOTS, INC.

By: /s/ Brad A. Waite

Print Name: Brad A. Waite

 /s/ Joe Heuer

Attest:

Title: EVP

Print Name: Joe Heuer

Title: Staff Counsel

**BIG LOTS
DEFINED BENEFIT PENSION PLAN**

As amended and restated
Effective January 1, 2005

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BIG LOTS DEFINED BENEFIT PENSION PLAN

Effective as of September 17, 1974, Consolidated Stores Corporation (the “Company”) adopted the Consolidated Stores Corporation Defined Benefit Pension Plan (the “Plan”) and executed a Trust Agreement to provide retirement benefits for certain of its employees.

The Plan was further amended and restated as of March 1, 1976, April 1, 1983, January 1, 1989, and again as of January 1, 1997, each amendment and restatement being a continuation of the original Plan.

Effective as of January 1, 2005, the Company hereby adopts the amended and restated Plan as set forth herein as a continuation of the Prior Plan.

Effective May 16, 2001, the name of the Company changed to Big Lots Stores, Inc. and effective as of such date the name of the Plan changed to Big Lots Stores Defined Benefit Pension Plan. Effective January 1, 2005, Big Lots, Inc. became the sponsor of the Plan.

The Trust Agreement which was established by the agreement executed on September 17, 1974, as amended, and as further amended and restated effective March 1, 1976, and April 1, 1983, is intended to be a part of this Plan.

The Plan is intended to meet the requirements of Internal Revenue Code of 1986, Section 401(a), and the Employee Retirement Income Security Act of 1974, as either may be amended.

The provisions of this Plan will apply only to an employee who becomes a Participant and who terminates employment on and after January 1, 2005. The rights and benefits, if any, of a former employee will be determined in accordance with the provisions of the Plan as in effect on the date his employment terminated.

Schedule I (Termination of Plan), Schedule II (Limitation on Benefits), Schedule III (Participating Employers), and Schedule IV (Top-Heavy Provisions) attached to this Plan are incorporated herein by reference and are a part hereof.

ARTICLE I

DEFINITIONS

The following words and phrases, when used in this Plan, unless the context clearly indicates otherwise, will have the following meanings:

Section 1.1 - Actuarial (or Actuarially) Equivalent

A form of benefit differing in time, period or manner of payment from a specific benefit provided under the Plan but being of the same computed value. For determining the amount of any Actuarial Equivalent, except for a lump sum, the mortality table is the U P - 1984 Mortality Table; the interest rate will be the interest rate specified by the Pension Benefit Guaranty Corporation to value immediate or deferred annuities, as applicable, in connection with pension plan terminations as in effect on the date of benefit commencement.

For purposes of determining the Actuarial Value of the amount of any lump sum benefit and benefits related to a Qualified Domestic Relations Order, as defined by the Internal Revenue Code Section 414(p), on or after January 1, 1996, but prior to April 1, 2002, the following assumptions apply:

- (a) **Mortality:** The mortality table specified in Revenue Ruling 95-6 based upon a fixed blend of fifty percent (50%) of the male mortality rates and fifty percent (50%) of the female mortality rates from the 1983 Group Annuity Mortality Table:
- (b) **Interest:** The rate paid on thirty-(30) year Treasury Bills as determined during the third month before the date of distribution.

For purposes of determining the Actuarial Value of the amount of any lump sum benefits and benefits related to a Qualified Domestic Relations Order as defined above calculated on and after April 1, 2002, the following assumptions shall apply:

- (c) **Mortality:** The table prescribed by the Secretary of the Treasury, such table being based on the prevailing commissioners' standard table (described in Code Section 807(d)(5)(A), currently the 1983 Group Annuity Mortality Table) used to determine reserves for group annuity contracts issued on the date as of which present value is being determined.
- (d) **Interest:** The annual rate of interest on thirty (30) year Treasury securities, averaged over all business days in the second calendar month prior to the first day of the Plan Year in which the date of distribution occurs.

Notwithstanding any provision to the contrary, for the twelve month period beginning on April 1, 2002, and ending on March 31, 2003, lump-sum amounts shall be calculated using the mortality table provided in (c) above and the interest rate provided in either (b) or (d) above, whichever produces the greater amount.

For purposes of determining the Actuarial Value of the amount of any lump sum benefits and benefits related to a Qualified Domestic Relations Order as defined above calculated on and after January 1, 2003, the following assumptions shall apply:

- (e) **Mortality:** The table prescribed by the Secretary of the Treasury, such table being based on the prevailing commissioners' standard table (described in Code Section 807(d)(5)(A), currently the UP94 mortality table (the basic underlying mortality rates in the 1994 Group Annuity Reserving Table) projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rates and 50% of the unloaded female mortality rates) used to determine reserves for group annuity contracts issued on the date as of which present value is being determined.
- (f) **Interest:** The annual rate of interest on thirty-(30) year Treasury securities, averaged over all business days in the second calendar month prior to the first day of the Plan Year in which the date of distribution occurs.

The interest and mortality factors stated in (a) and (b) are effective for purposes of determining limitations on benefits under Schedule II of the Plan for the limitation year beginning in 1995 in accordance with Revenue Ruling 98-1, Q&A 14, Method 1. For purposes other than Schedule II, these provisions are effective April 1, 2002.

Section 1.2 - Actuary

An independent, qualified actuary who is a Fellow of the Society of Actuaries and an enrolled actuary pursuant to the provisions of ERISA, selected by the Company, or a firm of independent actuaries selected by the Company at least one of whose members meets the preceding requirements.

Section 1.3 - Approved Absence

Absence of an employee authorized or approved by his Employer, as determined in accordance with the normal practice of the Employer, provided the employee returns in the period specified by the Employer.

Section 1.4 - Beneficiary/Designated Beneficiary

The Beneficiary or Designated Beneficiary will be the Eligible Spouse unless a qualified election is made pursuant to Sections 7.2 or 9.17.

Section 1.5 - Board

The present and any succeeding board of directors of the Company or any committee of said board of directors which will have the authority of said board of directors with respect to the Plan and/or the Trust.

Section 1.6 - Break in Service

The meaning described in Section 3.4 in respect to a Break in Service for vesting and benefit accrual. The meaning described in Section 2.1 in respect to eligibility to participate in the Plan.

Section 1.7 - Code

The Internal Revenue Code of 1986, as amended.

Section 1.8 - Committee

The Big Lots Associate Benefit Committee.

Section 1.9 - Company

Consolidated Stores Corporation, a Delaware corporation. Effective May 16, 2001, Company means Big Lots Stores, Inc., an Ohio corporation. Effective January 1, 2005, Company means Big Lots, Inc.

Section 1.10 - Compensation

- (a) Compensation

The monthly equivalent of the total cash remuneration (including overtime, bonuses, commissions and other forms of compensation), as reflected in the appropriate box on the Federal Income Tax Wage Statement (Form W-2) paid for services rendered to an Employer during a Plan Year (before deduction of salary deferral amounts under a Company plan qualified pursuant to Code Section 401(k) or salary reduction amounts under a company plan qualified pursuant to Code Section 125), excluding taxable portion of life insurance, gains on non-qualified stock options, bonuses attributable

to relocation, and deductible as well as non-deductible relocation expenses. Where payments not for services, such as payments for travel or expenses, are not separately stated, the Committee will determine and make appropriate reduction for such payments.

In respect to an employee who transferred directly into the employ of an Employer from a Related Company, applicable earnings for services rendered to the Related Company will be treated as Compensation from his Employer for purposes of this Plan.

The annual Compensation of each Participant taken into account under the Plan for any Plan Year beginning after December 31, 1983, and before January 1, 1994, will be limited to two hundred thousand dollars (\$200,000), or such greater amount as the Secretary may provide as a cost-of-living adjustment under Code Section 416(d).

Notwithstanding anything in the Plan to the contrary, in no event will the Compensation of a Participant taken into account under the Plan for any Plan Year

exceed one hundred fifty thousand dollars (\$150,000), subject to adjustment annually as provided in Code Sections 401(a)(17)(B) and 415(d); provided, however, that the dollar increase in effect on January 1 of any calendar year, if any, is effective for Plan Years beginning in such calendar year.

The annual Compensation of a Participant taken into account in determining benefit accruals for any Plan Year beginning after December 31, 2001, shall not exceed two hundred thousand dollars (\$200,000), as adjusted for cost-of-living increases in accordance with Code Section 401(a)(17)(B). The cost-of-living adjustment in effect for a calendar year applies to Compensation for the determination period that begins with or within such calendar year.

Effective for Plan Years beginning on and after January 1, 2001, Compensation shall include elective amounts that are not includible in the gross income of the employee under Code Section 132(f)(4).

Effective April 1, 1996, Compensation for a Highly Compensated Employee will only include Compensation earned prior to April 1, 1996, or for an Eligible Employee becoming a Highly Compensated Employee after April 1, 1996, Compensation earned prior to becoming a Highly Compensated Employee.

(b) Final Average Compensation

A Participant's average monthly Compensation during the highest five (5) consecutive years, excluding the Plan Year of termination, if not a full twelve (12) month period; provided, however, if the Participant will not have completed five (5) consecutive years of Participation, such average will be based on his Compensation averaged over his months of Participation, not to exceed sixty (60) months. For a Participant who incurs an Approved Absence or who is rehired after a Break in Service with his pre-break Service restored, the Plan Years prior to and following his Approved Absence or Break in Service will be considered consecutive Plan Years even though they were not contiguous.

Section 1.11 - Computation Period

The Plan Year is used for all purposes, except when determining an employee's initial eligibility to participate, the Computation Period will be the twelve month period beginning with the Employee's Employment Commencement Date.

Section 1.12 - Contingent Annuitant

(a) Contingent Annuitant

The person designated on a form filed with the Committee by a Participant to receive a Pension subsequent to a Participant's death pursuant to Section 7.4(b).

(b) Contingent Annuitant Option

The form of Pension described in Section 7.4(b).

Section 1.13 - Continuous Employment

The period of employment described in Section 3.1.

Section 1.14 - Effective Date

Except where separately stated, January 1, 2005, is the date on which the provisions of this amended and restated Plan become effective.

Section 1.15 - Eligible Spouse

The lawful husband or wife, as the case may be, of the Participant as recognized under the laws of the state in which the Participant regularly and continuously is employed by his Employer or applicable Related Company as of the date specified in the relevant section of this Plan.

Section 1.16 - Employee

(a) Eligible Employee

Any person classified as an employee of an Employer or such other classification as provided in Schedule III, on or after the Effective Date, who is receiving remuneration for personal services rendered to an Employer (or who would be receiving such remuneration except for an Approved Absence). Eligible Employee shall not include any "leased employee" as defined in Code Section 414(n)(2) or a person who would be a "leased employee" but for the one-year requirement set forth below. A leased employee is a person who is not an employee of the Employer and who provides services to the Employer where such services are (a) performed pursuant to an agreement between the Employer and any other person, (b) such person has performed such services for the Employer on a substantially full-time basis for a period of at least one (1) year and (c) such services are performed under primary direction or control by the Employer (or such other test as may be substituted for (c) in Code Section 414(n)(2)). A leased employee will not be considered an employee of the recipient if (i) such employee is covered by a money purchase plan providing (1) a nonintegrated employer contribution rate of at least ten percent (10%) of compensation, as defined in Code Section 415(c)(3), but including amounts contributed pursuant to a salary reduction agreement which are excludable from the employee's gross income under Code Section 125, 402(a)(8), 402(h) or 403(b), and, effective January 1, 2001, Section 132(f), (2) immediate participation, and (3) full and immediate vesting; (ii) leased employees do not constitute more than twenty percent (20%) of the recipient's non-highly compensated workforce.

(b) Ineligible Employee

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Any person employed by an Employer who is not an Eligible Employee, or any person who is employed by a Related Company which is not an Employer. The term "Ineligible Employee" will also include a person who had been an Eligible Employee and either has become employed in an employment status other than that of an Eligible Employee or has been transferred to a Related Company which is not an Employer, for so long as he remains employed.

Section 1.17 - Employer

Each of the following business entities (except that, in adopting the Plan for the benefit of its Eligible Employees, such business entity may limit or extend the application of the Plan to one or more groups of employees and/or divisions, locations or operations):

- (a) The Company
- (b) Any Related Company, which is participating pursuant to Section 2.4 and listed in Schedule III.

Section 1.18 - Employment Commencement

(a) Employment Commencement Date

The date upon which an Eligible Employee first performs an Hour of Service for an Employer or a Related Company.

(b) Reemployment Commencement Date

The date upon which a former employee who has incurred a Break in Service first performs an Hour of Service for an Employer or a Related Company after such Break in Service.

Section 1.19 - ERISA

The Employee Retirement Income Security Act of 1974, as amended.

Section 1.20 - Fiduciary

The Company and other Employers (acting through their respective boards of directors or duly authorized officers), the Committee, the Trustee, and/or other parties named as Fiduciaries pursuant to Section 9.1, but only with respect to the specific responsibilities of each for Plan and Trust administration, all as described in Article IX.

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Section 1.21 - Highly Compensated Employee

- (a) Any Employee of the Employer who, during the current Plan Year or the preceding Plan Year was at any time a five percent (5%) owner of the Employer within the meaning of Code Section 416(i)(1).
- (b) Any Employee of the Employer who, during the preceding Plan Year received "compensation" from the Employer in excess of eighty thousand dollars (\$80,000), or such higher amount as may be provided under Code Section 414(q).
- (c) For purposes of determining Highly Compensated Employees, compensation will mean compensation paid by the Employer for purposes of Code Section 415(c)(3) and will include amounts deferred pursuant to Code Sections 125, 402(a)(8) and 402(h)(1)(8), and, effective January 1, 2001, 132(f).
- (d) The determination of Highly Compensated Employees will be determined by the Employer on a controlled group basis and will not be determined on a plan by plan basis.
- (e) The determination of Highly Compensated Employees will be governed by Code Section 414(q) and the regulations issued thereunder.
- (f) For purposes of Code Section 414(q), "Look Back Year" will mean the twelve (12) month period immediately preceding the Determination Year.

“Determination Year” will mean the current Plan Year.

- (g) A Former Employee will be treated as a Highly Compensated Employee if (i) such Former Employee was a Highly Compensated Employee when such Former Employee separated from service, or (ii) such Former Employee was a Highly Compensated Employee at any time after attaining age fifty-five (55).

Section 1.22 - Investment Manager

A Fiduciary, other than the Trustee,

- (a) who has the power to manage, acquire or dispose of any Plan assets pursuant to an Investment Manager agreement, and
- (b) which is
 - (i) a bank, as defined in the Investment Advisers Act of 1940;
 - (ii) an insurance company qualified to manage, acquire or dispose of the assets of an employee benefit plan under the laws of more than one state; or
 - (iii) a firm registered as an investment adviser under the Investment Advisers Act of 1940.

Section 1.23 - Participant

- (a) Participant

A person who is or was an Eligible Employee who

- (i) has met all the participation requirements of this Plan,
- (ii) has become included in this Plan, as provided in Article II, and
- (iii) is an Active Participant, Inactive Participant, Retired Participant, Disabled Participant or Suspended Participant.

- (b) Active Participant

A Participant who is an Eligible Employee who satisfied the eligibility requirements in Section 2.1 and who does not come under the purview of subsections (c) through (f) of this Section 1.23.

- (c) Inactive Participant

A Participant whose employment terminated other than by reason of Retirement, death or disability and who is entitled to, but has not yet commenced to receive, benefits in accordance with Section 4.5.

- (d) Retired Participant

A Participant who has retired under this Plan in accordance with its provisions, and who is receiving or is entitled to receive a Pension, and will include a formerly Inactive Participant from the time he commences receiving a Pension. The term “Retired Participant” will not include a Disabled Participant, except where the context will clearly indicate to the contrary.

- (e) Disabled Participant

A Participant who is receiving or is entitled to receive a Disability Pension as provided in Section 4.4.

- (f) Suspended Participant

A previously Active Participant who either (i) is still working for an Employer (or a Related Company which is not an Employer) and has not incurred a Break in Service, but who is an Ineligible Employee, or (ii) has incurred a termination of employment and has neither incurred a Break in Service nor been reemployed. A Suspended Participant who incurs a Break in Service and is not then entitled to a Deferred Vested Pension will no longer be a Participant.

Section 1.24 - Pension

- (a) Pension

The retirement or disability income provided under this Plan, normally payable in monthly installments.

(b) Normal Retirement Pension

The Pension described in Section 5.1.

(c) Early Retirement Pension

The Pension described in Section 5.2.

(d) Late Retirement Pension

The Pension described in Section 5.3.

(e) Disability Pension

The Pension described in Section 5.4.

(f) Deferred Vested Pension

The Pension described in Section 5.5.

(g) Accrued Retirement Pension

As of a Participant's actual date of Retirement or other termination of employment or any other date of determination prior to his Normal Retirement Date:

- (i) The Pension to which the Participant would have been entitled at his Normal Retirement Date (without taking into consideration benefits under any Other Plan) had he remained in the employ of an Employer accruing Credited Service at the maximum annual rate until that date, not to exceed 25 years, and based on the assumption that his Final Average Compensation (as defined in Section 1.10) as of the date of determination is Final Average Compensation at his Normal Retirement Date; multiplied by
- (ii) A fraction, the numerator of which is his Credited Service up to the date of determination and the denominator of which is the Credited Service he would have had if he had remained in the employ of an Employer accruing Credited Service at the maximum annual rate until his Normal Retirement Date; less

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- (iii) The amount of any reductions and benefit limitations made pursuant to Sections 5.7 and Schedule II, respectively.

As of a Participant's actual date of Late Retirement, his Accrued Retirement Pension will be his Pension calculated as if his Late Retirement Date is his Normal Retirement Date.

- (iv) Notwithstanding the above, the Accrued Retirement Pension under this amended and restated Plan for any Participant on the Effective Date who was a Participant in the Plan on December 31, 1996, will be at least equal to the accrued monthly pension provided for by the Plan as of December 31, 1996.

(h) Qualified Joint and Survivor Pension

The form of Pension described in Section 7.2.

(i) Maximum Pension

The largest amount of Pension payable under the particular circumstances after application of the limitations described in Schedule II.

Section 1.25 - Period-Certain and Life Option

The form of Pension described in Section 7.3(b).

Section 1.26 - Plan

(a) Plan

The Consolidated Stores Corporation Amended and Restated Defined Benefit Pension Plan, the terms of which are set forth herein, as it may be amended from time to time. Effective May 16, 2001, Plan means the Big Lots Stores, Inc. Defined Benefit Pension Plan. Effective January 1, 2005, the Plan means the Big Lots Defined Benefit Pension Plan.

(b) Other Plan

Any pension, deferred profit sharing or other retirement plan to which an Employer or Related Company contributes, other than this Plan, or any plan which provides benefits intended to be supplemental to the benefits provided under this Plan. Benefits provided under any qualified retirement plan to which an Employer or Related Company contributes on behalf of one or more of its employees, other than this Plan, will not be intended to be supplemental to the benefits provided under this Plan.

(c) Prior Plan

The Plan continued in amended and restated form by this Plan, referred to on page 1.

Section 1.27 - Plan Administrator

The Company, notwithstanding the fact that certain administrative functions under or with respect to this Plan may have been delegated to the Committee or to any other person, persons or entity.

Section 1.28 - Plan Year

The twelve-month period commencing on January 1 and ending on December 31. Records of the Plan will be established and maintained on the basis of the Plan Year.

Section 1.29 - Related Company.

- (a) Any corporation included within a “controlled group of corporations” of which the Company is a member, as determined under Code Sections 414(b) and 414(m) and Regulations issued pursuant thereto [except that, with respect to the benefit limitation under Section 1 of Schedule II hereof, such determination will be made after substituting the phrase “more than fifty percent (50%)” for the phrase “at least eighty percent (80%)” each place it appears in Code Section 1563(a)(1)]; and any partnership, sole proprietorship, trust, estate, or corporation included within
 - (i) a “parent-subsidiary group of trades or businesses under common control,”
 - (ii) a “brother-sister group of trades or businesses under common control,” or
 - (iii) a “combined group of trades or businesses under common control,” as determined under Code Section 414(c) and Regulations issued pursuant thereto.
- (b) Any other entity designated as a Related Company by the Company.

Section 1.30 - Retirement

(a) Retirement

Termination of employment for reason other than death or transfer to another Employer or Related Company after a Participant has completed all requirements for a Normal, Early, or Late Retirement Pension. Retirement will be considered as commencing on the date immediately following a Participant’s last day of employment (or Approved Absence, if later).

(b) Normal Retirement

Retirement under the circumstances described in Section 4.1 qualifying a Retired Participant to benefits pursuant to Section 5.1.

(c) Normal Retirement Date

The first day of the month coincident with or next following the Participant’s Normal Retirement Age. “Normal Retirement Age” will mean the later of (i) a Participant’s attainment of his sixty-fifth (65th) birthday, or (ii) his fifth anniversary of the date the Participant commenced participation in the Plan.

(d) Early Retirement

The Retirement of a Participant prior to Normal Retirement Date in accordance with Section 4.2. In the event of Early Retirement, a Retired Participant will be entitled to an Early Retirement Pension computed as provided in Section 5.2.

(e) Early Retirement Date

In the case of a Retired Participant on Early Retirement, the first day of the month coincident with or next following the date on which he actually retires.

(f) Late Retirement

The continued employment of an Active Participant after his Normal Retirement Date in accordance with Section 4.3. A Retired Participant will be entitled to a Late Retirement Pension computed as provided in Section 5.3.

(g) Late Retirement Date

The first day of the month coincident with or next following the actual Retirement of an Active Participant who had been on Late Retirement.

Section 1.31 – Service

(a) Service

The period of a Participant's employment considered in determining his vesting in any benefit under the Plan as provided in Section 3.2. Eligibility to participate will be determined by counting Hours of Service as provided in Section 2.1.

(b) Credited Service

The period of a Participant's employment considered in determining the amount of benefit payable to him or on his behalf as provided in Section 3.3.

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(c) Month of Service

A Month of Service will be granted hereunder for each calendar month in which an employee completes at least one (1) Hour of Service.

(d) Month of Participation

A Month of Participation will be granted hereunder for each calendar month in which a Participant completes at least one (1) Hour of Service, excluding any calendar month prior to the Participant's date of participation.

(e) Hour of Service

(i) General Rule

An Hour of Service as defined in this subparagraph (i) will be credited to the Computation Period in which the Hours of Service are worked or credited to an employee.

(1) Hours of Service for Performance of Duties - An Hour of Service will be granted hereunder for each hour for which an employee is paid, or entitled to payment, for the performance of duties for an Employer or Related Company during an applicable Computation Period.

(2) Hours of Service When No Duties Are Performed - An Hour of Service will also be granted (up to a maximum of five hundred one (501) hours for any single continuous period) for each hour an employee is paid, or entitled to payment, by an Employer or Related Company on account of a period during which he performs no duties (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including short-term disability), layoff, military absence, jury duty or Approved Absence. Notwithstanding the preceding sentence:

(A) An hour for which an employee is directly or indirectly paid, or entitled to payment, on account of a period during which no duties are performed will not be credited to the employee if such payment is made or due under a plan maintained solely for the purpose of complying with applicable workmen's compensation, unemployment compensation or disability insurance laws; and

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(B) Hours of Service will not be credited for a payment which solely reimburses an employee for medical or medically related expenses incurred by the employee.

For purposes of this subparagraph (i)(2), a payment will be deemed to be made by or due from an Employer or Related Company regardless of whether such payment is made by or due from an Employer or Related Company directly, or indirectly through, among others, a trust fund or insurer to which an Employer or Related Company contributes or pays premiums and regardless of whether contributions made or due to the trust fund, insurer or other entity are for the benefit of particular employees or are on behalf of a group of employees in aggregate.

(3) An Hour of Service will be granted for each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by an Employer or Related Company. The same Hours of Service will not be credited both under subparagraph (i)(1) or (i)(2), as the case may be, and under this subparagraph (i)(3). Thus, for example, an employee who receives a back pay award following a determination that he or she was paid at an unlawful rate for Hours of Service previously credited will not be entitled to additional credit for the same Hours of Service. Crediting of Hours of Service for back pay awarded or agreed to with respect to periods described in subparagraph (i)(2) will be subject to the limitations set forth in that subparagraph. For example, no more than 501 Hours of Service will be credited for payments of back pay, to the extent that such back pay is agreed to or awarded for a period of time during which an employee did not perform or would not have performed duties.

(ii) Special Rule for Determining Hours of Service for Reasons Other Than the Performance of Duties

In the case of a payment which is made or due on account of a period during which an employee performs no duties, and which results in crediting of Hours of Service under subparagraph (i)(2) of this subsection (e), or in the case of an award or agreement for back pay to the extent that such award or agreement is made with respect to a period described in subparagraph (i)(2) of this subsection (e), the number of Hours of Service to be credited will be the number of regularly scheduled working hours included in the units of time for which the payment is made or, in the case of an employee without a regular work schedule, at the rate of thirty-eight and three quarters (38.75) hours per week or seven and three quarters (7.75) hours per day, and will be credited to the Computation Period in which the Hours of Service are credited to the employee but in no event will more than five hundred one (501) Hours of

Service be credited for any applicable period. Hours of Service will be calculated or credited in a manner consistent with Department of Labor Regulations Section 2530.200b-2(b) and (c) which is incorporated herein by reference.

Section 1.32 - Trust (or Trust Agreement)

The trust continued in an amended and restated form by the agreement between the Company and the Trustee effective as of September 17, 1974, which constitutes part of this Plan, or any other trust created by agreement between the Company and a trustee named therein which will also constitute a part of this Plan, as the same may be or has been amended from time to time, or any agreements successor thereto.

Section 1.33 - Trust Fund

The fund known as the Consolidated Stores Corporation Amended and Restated Defined Benefit Pension Trust, maintained in accordance with the terms of the Trust Agreement, as it may be amended from time to time.

Section 1.34 - Trustee(s)

The Trustee(s) named in the Trust Agreement which constitute part of this Plan and any additional or successor Trustee(s) from time to time acting as Trustee(s) of the Trust Fund.

ARTICLE II

PARTICIPATION

Section 2.1 – Eligibility

An Eligible Employee will become a Participant as follows:

- (a) Any Eligible Employee included in the Plan immediately preceding January 1, 2005, will continue to participate in accordance with the provisions of this amended and restated Plan.
- (b) Subject to subsection (c) below, any other Eligible Employee will be eligible to become a Participant of the Plan on the first day of the month coincident with or next following the date on which he meets the following requirements: (i) attaining the age of twenty-one (21), and (ii) being credited with at least one thousand (1,000) Hours of Service during the three hundred sixty-five (365) day period beginning with his Employment Commencement Date and ending on the anniversary date of his Employment Commencement Date. If any Eligible Employee fails to satisfy the one thousand (1,000) hour requirement, he will be ineligible to enter the Plan as of such anniversary date, but will be reconsidered on each subsequent January 1 (“Plan Anniversary Date”) and will automatically become a Participant of the Plan as of the first such Plan Anniversary Date thereof on which he was credited with at least one thousand (1,000) Hours of Service during the Plan Year immediately preceding such Plan Anniversary Date.
- (c) Notwithstanding any other provision of the Plan to the contrary, after March 31, 1994, no Eligible Employee who is newly hired, or who is rehired after his prior Service has been forfeited under Section 3.4(c), will be eligible to become a Participant under this plan.

An Eligible Employee who satisfies the eligibility requirements of the Plan must be actively employed on the date he satisfies such requirements in order to participate hereunder. An employee on layoff, sick leave, or Approved Absence will not be considered actively employed. Such employee will, however, automatically enter the Plan upon his return to active employment.

Breaks in Service after an employee has become a Participant of the Plan will be determined under Section 3.4.

A former employee who is rehired prior to five (5) consecutive one (1) year Breaks in Service, as determined under this Section of the Plan, will have his prior Hours of Service and his age on his original Employment Commencement Date taken into account for purposes of determining his eligibility to participate under this Section 2.1. If a former employee described in this paragraph satisfies the participation requirements of this Section 2.1 on his Reemployment Commencement

Date or date of rehire, as applicable, he will thereupon become a Participant in the Plan. Provided, however, that any former employee who completed a one-year Break in Service before January 1, 1985, must satisfy the participation requirements of this Section 2.1 based solely on his age on his Reemployment Commencement Date and the number of his Hours of Service in the three hundred sixty-five (365) day period beginning with his Reemployment Commencement Date.

A former employee who is rehired subsequent to five (5) consecutive one-year Breaks in Service, as determined under this Section of the Plan, must satisfy the participation requirements of this Section 2.1 based solely on his age on his Reemployment Commencement Date and the number of his Hours of Service in the three hundred sixty-five (365) day period beginning with his Reemployment Commencement Date.

An Ineligible Employee who becomes an Eligible Employee will become a Participant upon the date of change in his employment status provided he has satisfied the aforementioned conditions concurrent with or prior to his date of transfer.

Any Inactive Participant or former Participant receiving an Early or Normal Retirement Pension who is rehired will be immediately eligible to participate in the Plan as of his date of rehire.

Solely for purposes of determining whether a Break in Service for participation has occurred as determined under this Section of the Plan, an employee who is absent from work for maternity or paternity reasons will receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence, up to a maximum of five hundred one (501) Hours of Service during the Computation Period. For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence (1) by reason of the pregnancy of the individual, (2) by reason of a birth of a child of the individual, (3) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this paragraph will be credited (1) in the Computation Period in which the absence begins if the crediting is necessary to prevent a Break in Service in that period, or (2) in all other cases, in the following Computation Period.

Section 2.2 - Conditions of Participation

An Eligible Employee will not become a Participant herein unless he furnishes within a reasonable time limit established by the Committee such applications, consents, proofs of date of birth, elections, beneficiary designations and other documents and information as prescribed by the Committee. Each Eligible Employee upon becoming a Participant will be deemed conclusively, for all purposes, to have assented to the terms and provisions of this Plan and will be bound thereby.

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Section 2.3 - Change in Employment Status

- (a) Change From Eligible to Ineligible Status - If an Active Participant becomes an Ineligible Employee because of a change in his employment status (including a transfer to the employ of a nonparticipating Related Company), he will not incur a Break in Service, but will become and remain a Suspended Participant for so long as he remains in such ineligible status, and the following special provisions will apply:
 - (i) His Accrued Retirement Pension determined as of the date he becomes a Suspended Participant will be frozen and will not increase on account of Compensation received while he is a Suspended Participant.
 - (ii) His Continuous Employment while a Suspended Participant will be counted as Service to the extent that the requirements of Section 3.2 are satisfied but not as Credited Service.
 - (iii) While he is a Suspended Participant, he will have the same right as an Active Participant who is otherwise in a similar position to elect an optional form of Pension or to make any other election hereunder.
 - (iv) When a Suspended Participant's employment terminates for any reason, including Retirement or death, he (or, in the event of death, his Beneficiary) will be entitled to the benefits provided under the applicable provisions of Articles IV, V and VI in effect at the date of change in employment status. However, to the extent that a benefit is payable to or with respect to him pursuant to the provisions of Sections 5.7 and 5.8, his benefits under the Plan will be adjusted appropriately.
 - (v) If a Suspended Participant returns to the status of an Eligible Employee, he thereupon will again become an Active Participant of this Plan and, upon his subsequent Retirement or other termination of employment, his benefit will be based upon his actual Final Average Compensation and Credited Service. However, to the extent that a benefit is payable to or with respect to him pursuant to the provisions of Sections 5.7 and 5.8, his benefits under the Plan will be adjusted appropriately.
- (b) Change From Ineligible to Eligible Status - If a person who had been an Ineligible Employee becomes an Eligible Employee because of a change in his employment status (including a transfer from the employ of a nonparticipating Related Company), the following special provisions will apply:
 - (i) His Hours of Service while an Ineligible Employee will be considered in determining his eligibility to become an Active Participant of the Plan pursuant to the provisions of Section 2.1. He will become an Active

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Participant as of the date he became an Eligible Employee provided he has then satisfied the requirements of Section 2.1.

- (ii) His Continuous Employment while an Ineligible Employee will be counted as Service to the extent that the requirements of Section 3.2 are satisfied but not as Credited Service.
- (iii) To the extent that a benefit is payable to or with respect to him pursuant to the provisions of Sections 5.7 and 5.8, his benefits under the Plan will be adjusted appropriately.
- (c) Transfer From One Employer to Another - If a Participant leaves the employ of one Employer to enter directly into the employ of another Employer, he will not be deemed to have terminated his participation, but will be considered an Eligible Employee of the succeeding Employer from the date of such transfer during periods that he otherwise qualifies as an Eligible Employee.

Section 2.4 - Inclusion and Withdrawal of Participating Employers

Any Related Company which is authorized by the Board (or Committee as set forth below) to participate in the Plan may elect to participate (become an Employer) by action of its own board of directors or other managing body. In adopting the Plan, such Related Company may limit the application of the Plan

to one or more of its groups of employees and/or divisions, locations or operations. Special provisions or modifications relating to the Plan as adopted by such Related Company will be specifically provided for in Schedule III hereof.

To preserve continuity of Plan participation, when an intra-company merger, consolidation or reorganization involves one or more Related Companies who were Employers at the time of such merger, consolidation, or reorganization, the successor Employer will automatically be deemed to have adopted the Plan on behalf of its Eligible Employees who were covered hereunder immediately prior to such corporate restructure and the Committee will have the authority to amend Schedule III, as appropriate to reflect such changes.

The Company, in its sole discretion, may determine that an Employer will no longer participate in the Plan and may direct that such Employer withdraw from the Plan. Any Employer may similarly elect to discontinue its participation in the Plan at any time and may be required to discontinue its participation if it ceases to be a Related Company. In either event, applicable provisions of Articles X or XI and Schedules I and III will apply in respect to such discontinuance of participation.

ARTICLE III

SERVICE AND CREDITED SERVICE

Section 3.1 - Continuous Employment (Vesting and Benefit Accrual)

Continuous Employment will mean a Participant's total period of employment with one or more Employers or Related Companies from his Employment Commencement Date or most recent Reemployment Commencement Date, and in the case of a Participant who is rehired after a Break in Service with pre-break Service restored, will include the aggregate of his pre-break and post-break periods of employment. Continuous Employment will be measured in completed Plan Years, with one thousand (1,000) Hours of Service in a Plan Year being deemed a completed Plan Year.

Continuous Employment will not be deemed terminated under the following circumstances:

- (a) Change to or from employment status as an Eligible Employee; or
- (b) Employment by another Employer or a Related Company provided employment terminates merely to become an employee of the other Employer or Related Company; or
- (c) During the first twelve (12) consecutive months of an Approved Absence. If a Participant fails to return to the employ of the Employer or Related Company within the Approved Absence period prescribed by the Employer or at the end of twelve (12) months of Approved Absence if earlier, his Continuous Employment will be deemed to terminate as of the last day of such prescribed period or twelve (12) months of Approved Absence, whichever is earlier. A Participant's Service and Credited Service will be determined in accordance with the foregoing; or
- (d) During qualified military service; or
- (e) In respect to termination of employment which occurs after January 1, 1985, if the Participant is reemployed by an Employer or Related Company prior to incurring a Break in Service; provided, however, that the period between the termination date and reemployment date will not be included in Credited Service.

Section 3.2 - Service (Benefit Vesting)

Subject to any limitations specified in Schedule II, a Participant's benefit vesting under the Plan will be determined by his period of Service. Subject to the requirements of Section 3.4 relating to the restoration of Service after a Break in Service, a Participant will be granted Service for Continuous Employment ending on the date of his termination of employment. In no event will periods of employment with two or more Employers and/or Related Companies at the same time create more than one period of Service.

Section 3.3 - Credited Service (Benefit Accrual)

Except as otherwise provided in Schedule IV, the amount of benefit payable to or on behalf of a Participant will be determined on the basis of his Credited Service.

Subject to the requirements of Section 3.4 relating to the restoration of Credited Service after a Break in Service, a Participant will be granted Credited Service for Continuous Employment ending on the date of his termination of employment, excluding that portion of any period of Approved Absence in excess of twelve (12) consecutive months, as well as any Plan Years in which the Participant was not an Active Participant for at least one day.

If a Participant ceases to be an Active Participant and becomes a Suspended Participant, and he does not again become an Active Participant, he will receive no Credited Service during the period he is a Suspended Participant, but he will continue to accrue Service.

Effective April 1, 1996, the Credited Service for a Participant who is a Highly Compensated Employee is frozen as of that date or, if later, the date the Participant becomes a Highly Compensated Employee.

Section 3.4 - Break in Service (Vesting and Benefit Accrual)

- (a) A Participant will incur a Break in Service if he does not receive credit for more than five hundred (500) Hours of Service during a Plan Year.

Solely for determining whether a Break in Service has occurred in a Plan Year, an individual who is absent from work for maternity or

paternity reasons, will receive credit for the Hours of Service which would have otherwise been credited to such individual but for such absence. For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence (i) by reason of pregnancy of the individual, (ii) by reason of the birth of a child of the individual, (iii) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement.

The Hours of Service credited under this paragraph will be credited: (i) in the Plan Year in which the absence begins if the crediting is necessary to prevent a Break in Service in that period, or (ii) in all other cases, in the following Plan Year.

- (b) During the period after a termination of employment and prior to incurring a Break in Service, a Participant who was an Active Participant immediately before termination of employment will be considered a Suspended Participant. If a Suspended Participant is rehired by an Employer or Related Company prior to incurring a Break in Service, his employment will not be deemed to have been terminated for purposes of determining his Service. However, the period between

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his termination date and reemployment date will not be taken into account in determining his Credited Service.

- (c) A Participant's Service and Credited Service will be canceled if he has a Break in Service before he has met the requirements for Retirement, Disability or for a Deferred Vested Pension as provided in the applicable sections of Article IV. However, Participants who have met the requirements for Retirement, Disability or a Deferred Vested Pension will at all times retain their Service and Credited Service. If a terminated employee is reemployed by an Employer or Related Company after a Break in Service and his Service and Credited Service were canceled, such Service and Credited Service will be restored if his number of consecutive years of Break in Service is less than the greater of five (5) or the aggregate number of years of pre-break Service. Provided, however, that the rule stated in the immediately preceding sentence will not apply to a series of consecutive Breaks in Service in progress on January 1, 1985, if the Participant's consecutive years of Break in Service is greater than the aggregate number of years of pre-break Service and thus already caused said pre-break Service to be canceled.
- (d) If a Participant who received a cash distribution of vested benefits hereunder at a prior termination of employment is reemployed, his pre-break Service and Credited Service will be retained. However, when such a Participant is entitled to receive a benefit under this Plan, such benefit will be reduced by the Actuarial Equivalent of his prior distribution.

Section 3.5 - Reemployment of a Retired Participant

If an Employer or a Related Company re-employs a Retired Participant who commenced receiving Pension payments under the Plan, he will have a choice as to whether his monthly payment will be suspended or continued during periods in which he is an Active Participant accruing Credited Service. The Pension payable upon such Participant's subsequent Retirement or termination of employment will be reduced by the Actuarial Equivalent of any Pension payments from the Plan, except Disability Pension payments, which he received prior to his Retirement or termination of employment. In no event, however, will this reduction result in a monthly payment less than he was receiving immediately prior to his reemployment.

Section 3.6 - Military Service

Absence from employment by an Employer or Related Company due to service in the armed forces of the United States will not constitute a Break in Service, and the period during such absence will be considered as Service (and Credited Service if the individual was an Active Participant immediately prior to commencement of such Military Service or would have become an Active Participant during such period of Military Service), provided that the Participant is entitled by law to reemployment rights upon release from service and returns to employment with an Employer or a Related Company within the period provided by such law. For the purpose of determining benefits hereunder, Participants who accrue additional Credited Service during qualified Military Service will be deemed to have received Compensation during such Military Service at the same

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Compensation rate as in effect immediately prior to such absence or such Compensation rate as the Participant would have received had he been actively employed during the period of Military Service. If such Participant does not return to employment with the Employer or a Related Company within the period provided by law, he will be deemed to have terminated employment on the date he left the employment of the Employer or Related Company for service in the armed forces of the United States. Contributions, benefits and Credited Service with respect to qualified Military Service will be provided in accordance with Code Section 414(u).

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ARTICLE IV

REQUIREMENTS FOR RETIREMENT BENEFITS

Section 4.1 - Normal Retirement

The Normal Retirement Date of each Participant will be the first day of the month coincident with or next following the later of (i) attainment of his sixty-fifth (65th) birthday, or (ii) the fifth (5th) anniversary of his participation in the Plan that follows the date the employee became a Participant in this Plan. Payment of a Normal Retirement Pension will commence as of the Participant's Normal Retirement Date unless he continues in the employment of an Employer. A Participant who reaches age sixty-five (65) while in the employ of the Employer will have a nonforfeitable right, upon actual Retirement, to his Normal Retirement Pension, except to the extent that such Pension is forfeitable because it has not been paid or distributed to him prior to his death. Participants who do not retire on their Normal Retirement Date will be subject to the provisions of Section 4.3.

Section 4.2 - Early Retirement

A Participant who has attained age fifty-five (55) and has at least five (5) years of Service will be eligible to elect an Early Retirement Date, provided that the sum of the Participant's age and his years of Service equals sixty-five (65) or more. Said Early Retirement Date will be the first day of any month immediately following his termination of employment, provided that the Participant gives notice of such Early Retirement Date at least thirty (30) days in

advance to his Employer. A Participant who retires early may elect the commencement of his Early Retirement Pension on the first day of any month coinciding with or subsequent to his Early Retirement Date but not later than his Normal Retirement Date, and his Pension will commence at the beginning of the month so requested, but will be reduced as provided in Section 5.2. For purposes of this paragraph, the normal form of Pension benefit will be determined in accordance with Article VII.

Section 4.3 - Late Retirement

A Participant may remain in the employ of the Employer after his Normal Retirement Date, in which case he will continue his participation in this Plan. Benefit payments hereunder will be suspended while the Participant remains an Eligible Employee of any Employer unless such Participant fails to complete forty (40) or more Hours of Service during any calendar month. The Committee will notify the Participant of such suspension of benefits by personal delivery or first class mail during the first calendar month in which payments are withheld. The notice will contain a description of the specific reasons for suspension of benefits, a general description and copy of the relevant Plan provisions, a statement that the applicable Department of Labor regulations may be found in Section 2530.203-3 of the Code of Federal Regulations, and the Plan's procedure for affording a review of the suspension of benefits. Upon the Participant's subsequent Retirement, he will be entitled to a Late Retirement Pension in an amount determined as provided in Section 5.3 commencing as of his Late Retirement Date. For purposes of this paragraph, the normal form of Pension benefit will be determined in accordance with Article VII.

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Section 4.4 - Disability Pension

- (a) Disability for purposes of this Plan will mean a physical or mental condition incurred while employed by an Employer or a Related Employer which has continued six (6) consecutive months or more and which is expected to be permanent, as determined by the Social Security Administration.
- (b) Each Disabled Participant will be entitled to a monthly Disability Pension for life in a form provided for in Article VII and in an amount provided in Section 5.4.
- (c) If a Disabled Participant otherwise eligible to begin a Disability Pension under Section 5.4, commences to receive benefit payments under an insured long-term disability plan sponsored and maintained by an Employer or Related Company apart from this Plan, he will be constructively deemed to have elected to defer his Disability Pension for the period during which he is in receipt of benefits under such long-term disability plan prior to his Normal Retirement Date. During any period the Participant receives such insured long-term disability plan benefits he will continue to be treated as if he were an Active Participant receiving Hours of Service and Compensation at the same rate that was in effect immediately prior to his disablement. Upon attaining his Normal Retirement Date, such a Participant will be entitled to his Disability Pension reduced by the Actuarial Equivalent of such Pension payments, if any, that he received under the Plan prior to the commencement of benefit payments under such long-term disability plan. For purposes of this paragraph, the normal form of Pension benefit will be determined in accordance with Article VII.
- (d) If a Disabled Participant's disability will cease to exist, his rights to a current or future Disability Pension will cease: if he does not re-enter (or seek to re-enter with employment denied through no fault of his own) the Employer's employ within ninety (90) days thereafter, he will be deemed to have terminated his employment as of the date his disablement was established and his benefits will be recomputed on the assumption he was simply a terminated Participant and had never been disabled, less the Actuarial Equivalent of Disability Pension payments, if any, he had already received as a Disabled Participant. If any Participant being treated as an Active Participant under Section 4.4(c) seeks to re-enter the Employer's employ within the ninety (90) day period, but employment is denied through no fault of his own, his status as an Active Participant will be treated as having ended on the date his disability ceased to exist. If, however, he in fact re-enters the Employer's employ within ninety (90) days of the date his disablement ceased, he will continue as an Active Participant of this Plan.

Section 4.5 - Deferred Vested Pension

A Participant whose employment terminates for any reason other than death or Retirement, will be eligible, pursuant to the terms in Section 5.5, to receive a Deferred Vested Pension in accordance

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with Section 5.5, commencing at his Normal Retirement Date and payable in the form as provided in accordance with Article VII.

Section 4.6 - Retirement While on Leave of Absence

A Participant otherwise eligible to retire may elect to do so without returning to active employment with an Employer if he is absent from work pursuant to an Approved Absence.

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ARTICLE V

AMOUNT OF RETIREMENT OR PENSION INCOME

Section 5.1 - Normal Retirement Pension

Subject to the provisions of Section 5.7, Section 7.2 and Schedules II and IV, a Participant who retires on his Normal Retirement Date will be entitled to a monthly Pension, payable in the normal form of payment described in Section 7.1, in an amount equal to:

For Participants who retire after December 31, 1988, but prior to January 1, 1993, the greater of (a) or (b) below:

- (a) (i) one percent (1%) of a Participant's Final Average Compensation, multiplied by the Participant's Credited Service, not to exceed 35 years;

plus,

- (ii) sixty-five one hundredths of one percent (0.65%) of the excess of a Participant's Final Average Compensation over covered compensation, multiplied by the Participant's Credited Service, not to exceed thirty-five (35) years.

Covered compensation is the average of the Social Security taxable wage bases for the thirty-five (35) year period ending with the year of the individual's Social Security retirement age [as defined in Code Section 414(b)(8)]. Covered compensation will be determined on the date the Participant separates from service and the Social Security wage bases will be projected without change until the Participant's Social Security retirement age.

- (b) twenty-five percent (25%) of Final Average Compensation at age sixty-five (65), but only if the Eligible Employee was actively employed by the Company on December 31, 1988, and has one hundred twenty (120) or more Months of Service at age sixty-five (65).

For Participants who retire after December 31, 1992, (c) below:

- (c) one percent (1%) of a Participant's Final Average Compensation multiplied by the Participant's Credited Service, not to exceed twenty-five (25) years.

However, in no event will any Eligible Employee who was a Participant in the Plan as of January 1, 1993, be entitled to an Accrued Retirement Pension that is less than the Accrued Retirement Pension the Participant was entitled to receive as of December 31, 1992, based upon the terms of the Plan as they existed on such date, as if the Participant had terminated employment with the Company on December 31, 1992.

The benefits computed in accordance with this Section, if not already a multiple of ten dollars (\$10), will be rounded to the next highest multiple of ten dollars (\$10).

In no event will a Participant's Normal Retirement Pension be less than the Pension the Participant could have received had he elected an immediate Early Retirement Pension commencing as of the first day of any Plan Year following his eligibility for Early Retirement.

Notwithstanding the above, in no event shall any Eligible Employee who was an active Participant in the Plan as of December 31, 1995, and who is a Highly Compensated Employee be credited with Credited Service or Compensation for purposes of determining Final Average Compensation for any Compensation or Credited Service on and after April 1, 1996, or such date that he is determined to be a Highly Compensated Employee. Such affected Participant's Accrued Retirement Pension under the terms of this Plan shall be calculated as if the Participant terminated employment with the Employer as of March 31, 1996, or such later date that he is determined to be a Highly Compensated Employee. Service for purposes of Section 3.2 of the Plan shall continue to be credited.

Section 5.2 - Early Retirement Pension

Subject to the provisions of Section 5.7, Section 7.2 and Schedules II and IV, a Participant who retires early will be entitled to a Pension, payable in the normal form described in Section 7.1, commencing on the date elected by the Participant pursuant to Section 4.2, in an amount which is equal (as of the date of income commencement) to that portion of his Accrued Retirement Pension derived from Section 5.1 reduced by one of the following Early Retirement factors:

- (a) The portion of the benefit derived under Section 5.1(a)(i), 5.1(b) or 5.1(c) will be reduced by 1/180th for each of the first 60 months by which his starting date of income precedes his Normal Retirement Date and 1/360th for each of the next 60 months thereafter.
- (b) The portion of the benefit derived under Section 5.1(a)(ii) will be reduced by multiplying by the appropriate factor from the following table:

Age	Factor	Age	Factor
65	1.000	59	.654
64	.923	58	.615
63	.846	57	.577
62	.769	56	.529
61	.731	55	.486
60	.692		

For retirement ages which are not whole years, the values from the preceding table will be interpolated as appropriate.

Section 5.3 - Late Retirement Pension

Subject to the provisions of Section 5.7, Section 7.2 and Schedules II and IV, if a Participant does not retire at his Normal Retirement Date, he will be entitled to his Accrued Retirement Pension commencing as of his Late Retirement Date and in the normal form of payment described in Section 7.1.

Section 5.4 - Disability Pension

Subject to the provisions of Section 5.7, Section 7.2, and Schedules II and IV, a Participant who is eligible for a Disability Pension will be entitled to receive a monthly income, as provided in Section 4.4. Said Disability Pension will commence on the first day of the month coincident with or next following the date of the Participant's disablement and will be equal to the Actuarial Equivalent of the Disabled Participant's Accrued Retirement Pension. If recovery from disability occurs subsequent to attainment of the Participant's Normal Retirement Date, the Disability Pension will continue to be payable for life.

In lieu of the above benefit, each Disabled Participant may elect a reduced monthly Pension, commencing on the first day of any month coinciding with or following his attainment of age fifty-five (55), provided such Participant has satisfied the requirements for Early Retirement as set forth in Section 4.2 as of the first day of the month his benefits are to commence. Such reduced monthly Pension will be equal to the Disabled Participant's Accrued Retirement

Pension as of the first day of the month his benefits are to commence reduced by the factors in Section 5.2 for the period that this commencement date precedes his Normal Retirement Date.

Section 5.5 - Deferred Vested Pension

Subject to the provisions of Section 5.7, Section 7.2 and Schedules II and IV, a Participant who becomes eligible for a Deferred Vested Pension due to his termination of employment will be eligible to receive a Pension payable in the normal form described in Section 7.1, commencing at his Normal Retirement Date, if he is then living, equal to his Accrued Retirement Pension at termination as defined in Section 1.24(g).

A Participant who meets the requirements for Early Retirement as provided in Section 4.2 shall be entitled to a benefit which is not less than the Normal Retirement benefit upon attainment of the age requirements specified in Section 4.2 reduced in accordance with the provisions of Section 5.2.

A Participant who terminates employment before becoming vested in any portion of his Accrued Benefit will forfeit his entire Accrued Benefit and will be treated as having been paid his entire interest in the Plan. However, if the person is reemployed and again becomes a Participant before incurring at least five (5) consecutive one (1) years Breaks in Service, the forfeited portion of his Accrued Benefit will be restored. However, if the Participant received a distribution from the Plan when he initially terminated, this restoration will occur only if the Participant repays the amount distributed, plus interest at a rate determined under Code Section 411 (c)(2)(C), not later than the end of the fifth (5th) year beginning after he is reemployed or, if earlier, the end of the fifth (5th) year beginning after the distribution was made.

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Effective January 1, 1989, a Participant with five (5) Years of Service is fully vested in his Accrued Benefit. The Vesting Schedule for Plan Years prior to January 1, 1989, was as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2 years	20%
3 years	40%
4 years	60%
5 years	80%
6 years or more	100%

Section 5.6 - No Duplication of Benefits

Benefits will not be payable to any Participant under more than one provision hereof for the same period of time.

Section 5.7 - Benefit Coordination With Other Plans

If a Participant (or his Beneficiary) receives or is entitled to receive a benefit under any Other Plan, excluding the Big Lots Savings Plan (f/k/a Consolidated Stores Corporation Savings Plan), his Normal Retirement Pension will be reduced by the Actuarial Equivalent of his Normal Retirement benefit from any Other Plan (prior to reduction for any optional pre-Retirement coverage for survivor benefits), but only to the extent that:

- (a) The benefits from the plans are attributable to the same earnings and/or the same period of employment; and
- (b) The benefit from the Other Plan is not attributable to the voluntary or mandatory contributions made by the Participant.

If a Participant is entitled to benefits from this Plan and one or more Other Plans for the same period of employment and if one or more of such plans contains a benefit coordination provision, then the benefits payable to the Participant will be determined as follows:

- (c) The Primary Plan will be the plan in which the Participant is an Active Participant immediately before his Retirement, death or other termination of employment with an Employer or a Related Company. The benefits payable under the Primary Plan will be determined in accordance with its benefits coordination provision.
- (d) The Secondary Plan will be the plan and/or plans in which the Participant was an Active Participant before he became an active Participant in the Primary Plan. The benefits payable under the Secondary Plan will be determined without regard to their benefit coordination provisions.

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In all events, principles of benefit coordination will be applied on a basis equitable to the Participant considering his total covered earnings and service.

Section 5.8 - Benefit Commencement

- (a) Unless a Participant elects otherwise, benefit payments will commence no later than sixty (60) days after the latest of the close of the Plan Year in which (1) the Participant attains his Normal Retirement Age; (2) the fifth (5th) anniversary in which the Participant commenced participation in the Plan occurs; or (3) the Participant terminates employment with the Employer. Such an election will be in the form of a written statement, signed by the Participant, describing the benefit and the date on which the payments of such benefit will commence and be subject to the requirements of Article VII. However, distributions to five percent (5%) owners [as defined in Code Section 416(i)] and to Participants who attain age seventy and one-half (70 1/2) after January 1, 1988, must commence no later than the April 1st following the calendar year in which such Participant attains age seventy and one-half (70 1/2). Distributions to non five percent (5%) owners who attained age seventy and one-half (70 1/2) in 1988 will commence no later than April 1, 1990. Distribution of benefits to non five percent (5%) owners who attained age seventy and one-half (70 1/2) prior to January 1, 1988, and who were not five percent (5%) owners for any Plan Year beginning with the Plan Year in which they attained age sixty-six and one-half (66 1/2), will commence no later than the April 1st

following the calendar year in which the later of termination of employment or attainment of age seventy and one-half (70 1/2) occurs. In the event a Participant remains employed by the Employer after the April 1, of the calendar year following the calendar year in which he attained age seventy and one-half (70 1/2), the Participant's Pension shall be actuarially adjusted for the period after age seventy and one-half (70 1/2) in which the Participant was not receiving a Pension under this Plan to the Participant's commencement of payment of his Pension, in accordance with the regulations issued pursuant to Code section 401 (a)(9). In the event that a Participant has his Pension suspended in accordance with the regulations issued pursuant to Code section 411(a)(3)(B), his Pension shall be actuarially increased in accordance with the regulations issued pursuant to Code section 401(a)(9).

Effective January 1, 2002, for Participants who were not five percent (5%) owners for any Plan Year beginning with the Plan Year in which they attained age sixty-six and one-half (66 1/2), notwithstanding any other provisions of the Plan to the contrary, the Plan must begin to distribute a Participant's entire interest in the Plan no later than his 'Required Beginning Date'. A Participant's Required Beginning Date is April 1 of the calendar year following the calendar year in which the Participant attains age seventy and one-half (70 1/2) or actually retires, whichever is later.

Effective January 1, 2002, a Participant who was not a five percent (5%) owner, and who remains employed following the attainment of age seventy and one-half (70

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1/2) will be given the option to begin payment of his benefit as of April 1 of the Plan Year following the Plan Year he attains age seventy and one-half (70 1/2) or to delay commencement until actual Retirement from employment with the Employer. The Participant will be given this option as soon as administratively feasible after the Participant attains age seventy and one-half (70 1/2) and the Participant must notify the Administrator of his decision to commence benefit payments or to delay commencement by March 1 of the following calendar year. This election is irrevocable when made. If no election is received by March 1, the Participant will be deemed to have elected to defer his benefit payment until his actual Retirement.

- (b) In the event that an appropriate application for commencement of the payment of a Pension or other benefit hereunder is not received by the Committee within five (5) years after the date the benefit would normally commence, such benefit will be forfeited as of the end of the Plan Year in which such fifth anniversary occurs. If, following such a forfeiture, the Participant, his Eligible Spouse, his Contingent Annuitant, or his Beneficiary makes appropriate application for a benefit which the Committee determines such person would have been entitled to upon prior timely application, the Committee will authorize the benefit to be reinstated and payment to commence as of the first day of the month coincident with or next following such determination.

Section 5.9 - Top-Heavy.

Notwithstanding any other provision of this Plan, during any Plan Year in which the Plan becomes Top-Heavy as defined in Schedule IV, the provisions of Schedule IV will become operative.

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ARTICLE VI

DEATH BENEFITS

Section 6.1 - Death Benefit

The death benefit payable to the Spouse of a deceased eligible Participant will be either (a) or (b) below as hereinafter provided.

- (a) A monthly life annuity which is the survivorship portion of the Qualified Joint and Survivor's Pension, assuming, however, that the Participant had separated from Service on his date of death, survived to the earliest retirement age and died on the day after the earliest retirement age. The Qualified Joint and Survivor Pension is the Actuarial Equivalent of the deceased Participant's Accrued Retirement Pension reduced as provided for in Section 5.2 for each month that the Participant's date of death or earliest retirement age, if later, precedes his Normal Retirement Date, or
- (b) A lump sum amount equal to the Actuarial Equivalent of the survivorship portion of the Qualified Joint and Survivor's Pension of the deceased Participant's Accrued Retirement Pension reduced as provided for in Section 5.2, and computed on the assumption that the Participant had separated from Service on his date of death, survived to the earliest retirement age and died on the day after the earliest retirement age.

Notwithstanding the above, the monthly life annuity provided as pre-retirement spousal annuity will not be less than the corresponding "qualified pre-retirement survivor annuity" as described in Code Section 417.

For purposes of this Article VI, "earliest retirement age" will be the earliest date on which, under the Plan, the Participant could elect to receive Retirement benefits.

Section 6.2 - Eligible Participants and Determination of Applicable Death Benefits

Any deceased Active, Disabled or Retired Participant who on the date of his death:

- (a) was credited with an Hour of Service on or after August 23, 1984,
- (b) had a vested benefit under this Plan,
- (c) was not receiving Retirement benefit payments, and

- (d) had an Eligible Spouse immediately preceding the date of his death,

will have a pre-retirement spousal annuity payable to said Spouse. There are no death benefits payable to unmarried participants.

The Spouse has the option to elect payment of the Death Benefits in the form of a life annuity or the lump sum equivalent of the applicable death benefit. The lump sum or annuity will be as provided in Section 6.1(a) or (b) and calculated as payable commencing on the first day of the month coincident with or next following the date the Participant would have reached the earliest retirement age under this Plan, or if later, his date of death.

The lump sum or annuity as calculated in the preceding sentence may be payable immediately (reduced for early commencement) or deferred to a later date at the spouse's election.

ARTICLE VII

FORM OF PENSION PAYMENT AND OPTIONAL BENEFITS

Section 7.1 - Normal Form of Pension Payment

The normal form of Pension payment will be monthly payments for the life of the Participant, with no further payments made after his death. Subject to the provisions of Section 5.9, the first payment will be made on the first day of the calendar month coinciding with or next following the Participant's Retirement date, except that with respect to a Participant entitled to a Disability Pension or a Deferred Vested Pension and a Participant entitled to an Early Retirement Pension who has elected to defer payment, the date of such first payment will be the Participant's Normal Retirement Date or such earlier date elected by the Participant pursuant to Sections 5.4, 4.2 or 4.4, as applicable. The last payment will be made on the first day of the calendar month during which the Participant's death occurs.

Pensions will be paid in the normal form for Participants if on the date Pension payments commence (i) they do not have an Eligible Spouse, or (ii) they have completed a Qualified Election and have not made an election of any optional form of Pension pursuant to Section 7.3.

Section 7.2 - Qualified Joint and Survivor Pension

If on the date a Participant's Pension payment commences (including Disability Pensions) he has an Eligible Spouse to whom he is married as of such benefit commencement date, such Pension will be paid in the form of an immediate Qualified Joint and Survivor Pension which is Actuarially Equivalent to the normal form of payment. Under the Qualified Joint and Survivor Pension, a reduced amount will be paid to the Participant for his lifetime, and the Eligible Spouse, if surviving at the Participant's death, will be entitled to receive thereafter a lifetime Pension in a monthly amount equal to fifty percent (50%) of the reduced monthly Pension which had been payable to the Participant. The last payment of the Qualified Joint and Survivor Pension will be made as of the first (1st) day of the month in which the death of the later to survive of the Participant and his Eligible Spouse occurs. So long as a Qualified Election is signed within the ninety (90) day period ending on the date benefits would commence, a Participant may elect in writing, any time prior to the commencement of his Pension payments, to receive the normal form of payment; or a Participant entitled to receive a Normal, Late or Early Retirement, Disability Pension or Deferred Vested Pension may elect an optional form of payment under Section 7.3. Any such election for an optional form of payment will be revocable (pursuant to Section 7.4), at the Participant's option, at any time prior to the date the Participant's Pension payments commence.

(a) Notice of Qualified Election

In the case of a Qualified Joint and Survivor Pension as described above, the Plan Administrator will provide each Participant within thirty (30) to ninety (90) days prior to the commencement of benefits, a written explanation of: (i) the terms and conditions of a Qualified Joint and Survivor

Pension; (ii) the Participant's right to make and the effect of an election to waive their Qualified Joint and Survivor Pension form of benefit; (iii) the rights of a Participant's Eligible Spouse; and (iv) the right to make, and the effect of, a revocation of a previous election to waive the Qualified Joint and Survivor Pension.

A Participant may elect, with applicable spousal consent, to waive any requirements that the written explanation be provided at least thirty (30) days before the annuity starting date if the distribution commences more than seven (7) days after such explanation is provided.

(b) Qualified Election

Any Participant who desires to waive the Qualified Joint and Survivor Pension must do so in writing within the ninety- (90) day period ending on the date benefits would commence and such waiver must be consented to by the Participant's Eligible Spouse. The Eligible Spouse's consent in writing to a waiver in which the Eligible Spouse acknowledges the effect of the election, the waiver must be witnessed by a Plan representative or notary public and must be limited to a specific optional form of benefit or for a specific alternate Beneficiary in accordance with Section 9.17. Notwithstanding this consent requirement, if the Participant establishes to the satisfaction of a Plan representative that such written consent may not be obtained because there is no Eligible Spouse or such Spouse cannot be located, a waiver will be deemed an election qualified under this paragraph. Any consent necessary under this provision will be valid only with respect to the Spouse who signs the consent, or in the event of an election deemed qualified under this paragraph, the designated Eligible Spouse. Additionally, a revocation of a prior waiver may be made by a Participant without the consent of the Eligible Spouse at any time before the commencement of benefits. The number of revocations will not be limited.

Section 7.3 - Optional Forms of Pension

In lieu of the normal form of Pension payable to a Participant under Section 5.1 (Normal Retirement Pension), Section 5.2 (Early Retirement Pension), Section 5.3 (Late Retirement Pension), Section 5.4 (Disability Pension) or Section 5.5 (Deferred Vested Pension) of this Plan, a Participant may elect to receive benefits of Actuarial Equivalent value as described below. Notwithstanding the above, any married Participant must have completed a Qualified Election within the ninety (90) day period ending on the date benefits would commence before any election of an optional form of Pension will have any effect.

The election of an optional form of Pension will be in writing on a form approved by the Committee and, if in accordance with the conditions set forth in Section 7.4 below, will become effective (i) in respect to a Participant who retires on his Normal or Early Retirement Date, on such Retirement date, (ii) in respect to a Participant who continues employment beyond his normal Retirement Date, on his Late Retirement Date, and (iii) in respect to an Inactive Participant, the date his Deferred Vested Pension commences, but in no event prior to the date the written election is filed with the Committee.

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- (a) Lump Sum Distribution - One lump sum payment in cash of the entire Actuarial Equivalent of the Participant's Accrued Retirement Pension.
 - (b) Period-Certain - A reduced Pension payable over sixty (60), one hundred twenty (120) or one hundred eighty (180) months, as the Participant elects, in monthly, quarterly, semiannual or annual installments. The period over which such payment is to be made will not extend beyond the Participant's life expectancy (or the life expectancy of the Participant and his Designated Beneficiary).
 - (c) Purchase of an Annuity Contract - The purchase of an annuity contract to provide Pension benefits to the Participant (and his Designated Beneficiary, if any) in any form equivalent in value to the Actuarial Equivalent of the Participant's Accrued Retirement Pension.

Notwithstanding the above, certain small Pension payments may be distributed to Participants in accordance with the provisions of Section 9.14.

In lieu of the death benefit provided under Section 6.1(a), a Beneficiary may elect to receive his benefit in the form of a single lump sum.

Notwithstanding the above, distributions may only be made over one of the following periods (or a combination thereof):

- (a) the life of the Participant,
- (b) the life of the Participant and a Designated Beneficiary,
- (c) a period certain not extending beyond the life expectancy of the Participant, or
- (d) a period certain not extending beyond the joint and last survivor expectancy of the Participant and a Designated Beneficiary.

For purposes of this computation, a Participant's life expectancy may be recalculated no more frequently than annually; however, the life expectancy of a non-spouse Beneficiary may not be recalculated.

Notwithstanding any provision hereof to the contrary, if the value of the Participant's benefit under any of the above options will be less than an amount that will satisfy the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the Regulations, the optional benefit will be adjusted so that the value of the Participant's benefit under the option will be equal to an amount that will satisfy the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the Regulations.

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Section 7.4 - Conditions Regarding Optional Forms of Pension

Any optional form of Pension provided under this Plan as determined by the Committee other than through the options available under an insurance or annuity contract will be subject to the following conditions:

- (a) An election of an optional form of Pension or a change of Contingent Annuitant will become effective only if it is filed with the Committee in writing on a form approved by the Committee prior to the date the election is to become effective, provided that an election, any change or revocation of an election, or any change in the designation of a Contingent Annuitant may be made no earlier than 30 days from the date payment of the Participant's Pension commences. Any attempted election of an optional form of Pension or change of a Contingent Annuitant not meeting the conditions of the preceding sentence will be void for all purposes, unless the Committee determines otherwise in accordance with the provisions of Section 9.6.
- (b) To elect a Contingent Annuitant Option (or to change a Contingent Annuitant), a Participant will designate his Contingent Annuitant on a form provided for this purpose, and will furnish within thirty (30) days thereafter, but not later than the date on which he will retire, proof satisfactory to the Committee of the age of the Contingent Annuitant.
- (c) An election made pursuant to Section 7.3 will become inoperative if the death of the Participant or the Contingent Annuitant [under Section 7.3(b)] occurs before the election of the optional form of Pension becomes effective and death benefits will be paid according to Article VI.
- (d) If the Contingent Annuitant dies after the date payment of the Participant's Pension commences but before the death of the Retired Participant, such Participant will continue to receive the same amount of Pension payable to him in accordance with such election.
- (e) If the Participant will become reemployed by an Employer after the election has become effective, his election will nevertheless continue to be effective, and if the Participant will die before retiring, his Contingent Annuitant (or Beneficiary) will receive the amount of Pension which would be payable to such Contingent Annuitant (or Beneficiary) in accordance with such election, as if such Participant had retired on the date of his death.
- (f) In any event, if benefit commencement has occurred prior to the Participant's death, any remaining interest must be distributed at least as

Any optional form of Pension paid through an insurance or annuity contract (individual or group) will be subject to the conditions contained in or otherwise applicable to such insurance or annuity contract.

Any recipient of an "eligible rollover distribution" may elect, at the time and in the manner announced by the Administrator, to have any portion of that distribution paid directly to any eligible retirement plan he designates.

(a) Definitions

- (i) "eligible rollover distribution" means any distribution of all or any portion of the balance to the credit of the distributee, except (i) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's Designated Beneficiary, or for a specified period of ten years or more (ii) any portion of the distribution required to be made under Code Section 401(a)(9) or (iii) any portion of the distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Employer securities).
- (ii) "eligible retirement plan" means an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), or a qualified trust described in Code Section 401(a), that will accept the distributee's eligible rollover distribution. However, if the eligible rollover distribution is being made to a surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity only. Effective January 1, 2002, for purposes of the direct rollover provisions, an eligible retirement plan shall also mean an annuity contract described in Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. The definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a Qualified Domestic Relation Order, as defined in Code Section 414(p).
- (iii) "distributee" means an employee or former employee and, with respect to their interests only, the employee's or former employee's surviving spouse and the employee's or former employee's spouse or former spouse who is the alternate payee under a Qualified Domestic Relations Order, as defined in Code Section 414(p).
- (iv) "direct rollover" means a payment by the Plan to the eligible retirement plan specified by the distributee.

ARTICLE VIII

PLAN FINANCING

Section 8.1 – Contributions

No contributions will be required or permitted from any Participant. The Employers will make contributions in such amounts and at such times in accordance with (i) a funding method and policy to be established by the Company consistent with Plan objectives, and (ii) annual actuarial valuations of the Plan prepared by the Actuary. It is the intention of each Employer to continue this Plan as it applies to its employees and make contributions regularly each year. Forfeitures arising under this Plan because of severance of employment before a Participant becomes eligible for a Pension, or for any other reason, will to the extent permitted by law be applied to reduce the cost of the Plan, not to increase the benefits otherwise payable under the Plan.

Section 8.2 - Funding Policy and Method

The Company will establish a funding policy and method, and advise the Trustee thereof, so that the investment of the Trust Fund can be appropriately coordinated with the Plan's financial needs (such as the requirements for liquidity and investment performance to meet expected benefit payments) both on a short-term and a long-term basis.

Section 8.3 - Trust Fund

- (a) All contributions made by the Employers under this Plan will be paid to the Trustee and deposited in the Trust Fund. The Trustee will invest the assets of the Trust Fund, including any insurance or annuity contracts (individual or group) comprising a part thereof, in accordance with the Trust Agreement. Except as otherwise provided herein, all assets of the Trust Fund allocable to this Plan, including investment income, will be retained for the exclusive benefit of Participants and their Beneficiaries, will be used to pay benefits to such persons or to pay administrative expenses to the extent not paid by the Employers, and will not revert to or inure to the benefit of any Employer.
- (b) Notwithstanding anything herein to the contrary, upon an Employer's request, a contribution which was made by a mistake of fact, or which is determined to be nondeductible under Code Section 404, will be returned to the Employer within one (1) year after the payment of the contribution, or the disallowance of the deduction (to the extent disallowed), whichever is applicable.

Section 8.4 - Single Plan

Trust Fund assets allocable to contributions made under the Plan by one Employer will be available on an ongoing basis to satisfy the total Plan liabilities of all participating Employers; however, Trust Fund assets attributable to contributions to another employee benefit plan will first be

ARTICLE IX

ADMINISTRATION

Section 9.1 - Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration

The Fiduciaries will have only those powers, duties, responsibilities and obligations as are specifically, given them under this Plan or the Trust Agreement. Any power, duty, responsibility or obligation for the control, management or administration of the Plan or Trust Fund which is not specifically allocated to any Fiduciary, or with respect to which the allocation is in doubt, will be deemed allocated to the Company. In general, the Employers will have the sole responsibility for making the contributions, as specified in Article VIII and subject to the provisions of Article VIII, necessary to provide benefits under the Plan in respect to their employees. The Company will have the sole authority to appoint and remove members of the Committee and to amend or terminate, in whole or in part, this Plan. The Committee shall have the authority to appoint and remove an Investment Manager, a Trustee, and shall have the authority to amend or terminate the Trust Agreement. The Committee will have the sole responsibility for the administration of this Plan, as specifically described in this Plan and the Trust Agreement. The Trustee will have the sole responsibility for the administration of the Trust and the management of the Trust assets except in respect to insurance or annuity contracts or in respect to powers delegated to an Investment Manager.

The Company, by written instrument filed with the records of the Plan may designate fiduciary capacities and/or Fiduciaries other than those named herein. A Fiduciary may serve in more than one fiduciary capacity in respect to the Plan. A Fiduciary will have the authority to designate parties other than Fiduciaries to carry out all or a portion of his fiduciary responsibilities, through a written instrument. A Fiduciary or party designated to carry out all or a portion of a Fiduciary's responsibilities, as provided above, may employ one or more parties to render advice with regard to any responsibility he has under the Plan.

Section 9.2 – Indemnification

The Company will indemnify each member of the Committee and any other employee, officer or director of the Company or a Related Company against any claims, loss, damage, expense and liability (other than amounts paid in settlement not approved by the Company) reasonably incurred by him in connection with any action or failure to act to which he may be party by reason of his membership on the Committee or performance of an authorized duty or responsibility for or on behalf of the Company or a Related Company pursuant to the Plan or Trust unless the same is judicially determined to be the result of the individual's gross negligence or willful misconduct. Such indemnification by the Company will be made only to the extent (i) such expense or liability is not payable to or on behalf of such person under any liability insurance coverage, and (ii) the Trust is precluded from assuming such expense or liability because of the operations of ERISA Section 410 or other applicable law. The foregoing right to indemnification will be in addition to any other rights to which any such person may be entitled as a matter of law.

Section 9.3 - Appointment of Committee

The Plan will be administered by the Committee consisting of at least three (3) persons who will be appointed by the Company's Board of Directors on the recommendation of the Company's Chief Executive Officer. A person who is selected as a member of the Committee also may serve in one or more other fiduciary capacities with respect to the Plan and may be a Participant. The Board will have the right to remove any member of the Committee at any time, and a member may resign at any time upon notice to the Company. The Chief Executive Officer, with the approval of the Board, may fill by appointment any vacancy in the membership of the Committee. All usual and reasonable expenses of the Committee incurred by them in the administration of the Plan and Trust, including but not limited to fees and expenses of professional advisors referred to above, may be paid in whole or in part by the Employers, and any expenses not paid by the Employers will be paid by the Trustee out of the principal or income of the Trust Fund. Any members of the Committee must be full-time employees of the Company or Related Company and will not receive compensation with respect to their services for the Committee.

Section 9.4 - Records and Reports

The Committee will exercise such authority and responsibility as it deems appropriate in order to comply with the Code, ERISA and governmental regulations issued thereunder relating to records of Participants' Service, accrued benefits and the percentage of such benefits which is nonforfeitable under the Plan; notifications to Participants; annual registration with the Internal Revenue Service; annual reports to the Department of Labor; and reports to the Pension Benefit Guaranty Corporation. The Employers and the Committee will each keep or cause to be kept such employee and Participant data and other records, and will each reasonably give notice to the other of such information, as will be proper, necessary or desirable to effectuate the purpose of the Plan. Neither the Employers nor the Committee will be required to duplicate any records kept by the other.

Section 9.5 - Other Committee Powers and Duties

The Committee will have such duties and powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following:

- (a) In its sole discretion, to construe and interpret the Plan, including the supplying of any omissions in accordance with the intent of the Plan, decide all questions of eligibility, determine the amount, manner and time of payment of any benefits hereunder, and to authorize the payment of benefits;
- (b) To prescribe forms and procedures to be followed by the Participants and Beneficiaries filing applications for benefits;
- (c) To prepare and distribute, in such manner as the Committee determines to be appropriate, information explaining the Plan;

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- (d) To receive from the Employers and from Participants such information as will be necessary for the proper administration of the Plan;

- (e) To furnish the Employers, upon request, such annual reports with respect to the administration of the Plan as are reasonable and appropriate;
- (f) To receive, review and keep on file (as it may deem convenient or proper) reports of the financial condition, and of the receipts and disbursements, of the Trust Fund from the Trustee;
- (g) To appoint, employ or designate individuals to assist in the administration of the Plan and any other agents it deems advisable, including legal and actuarial counsel; and
- (h) To exercise such other powers and duties as the Board may delegate to it.

The Committee may retain auditors, accountants, physicians, actuaries, legal counsel and other professional advisors selected by it. Any Committee member or other Fiduciary may himself act in any such capacity, and any such auditors, accountants, physicians, actuaries, legal counsel, or other professional advisors may be persons acting in a similar capacity for any Employer and/or any nonparticipating Related Company and may be employees of any Employer and/or any nonparticipating Related Company. The opinion of or information and data contained in any certificate or report or other material prepared by any such auditor, physician, Actuary, accountant, legal counsel, or other professional advisor will be full and complete authority and protection in respect of any action taken, suffered or omitted by the Committee or other Fiduciary in good faith and in accordance with such opinion or information and no member of the Committee or other Fiduciary will be deemed imprudent by reason of any such action.

The Committee will cause the Actuary to prepare actuarial valuations of the Plan for each full Plan Year. In making the annual actuarial valuation of the Plan, the Actuary may rely upon the written statements of the Trustee, Investment Manager and/or insurance company which holds or manages Trust Fund assets concerning the value of such assets in the Trust Fund and will not be required to make any independent investigation with respect thereto. The Actuary may also rely upon any information furnished him by the Employers, the Committee, an accountant or auditor.

Section 9.6 - Rules and Decisions

The Committee may adopt such rules as it deems necessary, desirable or appropriate for the proper and efficient administration of the Plan and as are consistent with the provisions of the Plan. Rules and decisions of the Committee will not discriminate in favor of officers, directors or highly paid or compensated employees of the Company and all Related Companies which are members of the same controlled group of corporations as the Company when viewed as a single entity. When making a determination or calculation, the Committee will be entitled to rely upon information furnished by a Participant or Beneficiary, an Employer, the legal counsel of an Employer, an Actuary, or the Trustee. The determination of the Committee as to any disputed question arising hereunder including, but without limitation thereto, questions of construction, administration and

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interpretation, will be final and conclusive upon all persons including, but not by way of limitation, Eligible Employees, Participants, Beneficiaries, and their heirs, distributees and personal representatives, and any other person claiming an interest under the Plan and will not be deemed imprudent.

Section 9.7 - Committee Procedures

The Committee may act at a meeting or in writing without a meeting. All decisions of the Committee will be made by the vote of the majority including actions in writing taken without a meeting. The Committee may adopt such operating procedures and regulations as it deems desirable for the conduct of its affairs and may authorize a member, or each member, of the Committee to act on its behalf in certain administrative matters deemed by them to be routine in nature, including the execution of documents. No Committee member who is a Participant will have any vote in any decision of the Committee made uniquely with respect to such Committee member or his benefits hereunder.

Section 9.8 - Authorization of Benefit Payments

The Committee will issue directions to the Trustee and/or the applicable insurance company, if any, concerning all benefits which are to be paid from the Trust Fund pursuant to the provisions of the Plan, and certify that all such directions are in accordance with this Plan.

Section 9.9 - Application and Forms for Pension

The Committee will require a Participant to complete and file with the Committee an application for Pension and all other forms approved by the Committee, and to furnish all pertinent information requested by the Committee and the Committee will not be deemed imprudent by reason of failure to recognize or act in regard to other types of communications received. The Committee may rely upon all such information so furnished it, including the Participant's current mailing address. To the extent that the Company or the Committee will prescribe forms for use by the Participants, former Participants and their respective Beneficiaries in communicating with the Employers or the Committee, as the case may be, and will establish periods during which communications may be received, they and the Employers will respectively be protected in disregarding any notice or communication for which a form will so have been prescribed and which will not be made on such form and any notice or communication for the receipt of which a period will so have been established and which will not be received during such period, or in accepting any notice or communication which will not be made on the proper form and/or received during the proper period. Each Employer and the Committee will respectively also be protected in acting upon any notice or other communication purporting to be signed by any person and reasonably believed to be genuine and accurate, and will not be deemed imprudent by reason of so doing.

Section 9.10 - Facility of Payment

Whenever, in the Committee's opinion, a person entitled to receive any payment of a benefit, or installment thereof, hereunder is under a legal disability or is incapacitated in any way so as to be

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unable to manage his financial affairs, the Committee may direct the Trustee and/or the applicable insurance company, if any, to make payments to such person or to his legal representative. Any payment of a benefit or installment thereof in accordance with the provisions of this Section will be a complete discharge of any liability for the making of such payment under the provisions of the Plan.

If any Beneficiary of any Participant or former Participant will be a minor, the Committee and the Trustee will be fully protected in making any payment required to be made to such minor to any person who will be a custodian for such minor under the provisions of the Uniform Gifts to Minors Act in effect in the state in which such minor will reside at the time of such payment.

Section 9.11 - Claims Procedure

The Committee will notify each Participant of his entitlement to receive benefits under this Plan and will provide appropriate forms on which application for such benefits may be made.

Each Participant or Beneficiary claiming a benefit under the Plan must complete and file such application forms with the Committee. The Committee may designate a member or other designee to review all applications for benefits. That person will notify the claimant in writing of his decision within ninety (90) days of his receipt of the application. If special circumstances require any extension of time (not to exceed ninety (90) days) for processing the claim, the claimant will be notified in writing of the extension prior to the expiration of the initial ninety (90) day period.

The reviewing member of the Committee will make all determinations on behalf of the Committee as to the right of any person to a benefit. Any denial by the reviewing Committee member of a claim for benefits by a Participant or Beneficiary will be stated in writing and delivered or mailed to the Participant or Beneficiary. The notice will be written to the best of the reviewing Committee member's ability in a manner that may be understood without legal or actuarial counsel. Such notice will set forth specific reasons for the denial and, if applicable, a description of additional material or information necessary for the claimant to perfect his claim. If the reviewing Committee member rejects the application solely because the claimant failed to furnish certain necessary material or information, the notice will explain what additional material is needed and why, and advise the claimant that he may refile a proper application under the above claim procedure.

Section 9.12 - Appeal and Review Procedure

If a claim has been denied by the reviewing Committee member, the claimant may appeal the denial within thirty (30) days after his receipt of written notice thereof by submitting in writing to the Committee a request for review of the denial of claim. A claimant may also submit a written statement of issues and comments concerning his claim, and he may request an opportunity to review the Plan, the Trust Agreement and any other pertinent documents (which will be made available to him by the Committee within thirty (30) days after its receipt of a copy of the request, at a convenient location during regular business hours).

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If an appeal is made, the Committee will render its final decision with the specific reasons therefore in writing and transmit it to the claimant by certified mail within sixty (60) days of its receipt of the request for review.

Section 9.13 – Evidence

Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information, which the person acting on it considers pertinent and reliable, and signed, made or presented by the proper party or parties.

Section 9.14 - Limitation Regarding Small Payments

If any Pension or Other Plan benefit has a single sum value as determined by Section 1.1 not greater than three thousand five hundred dollars (\$3,500), effective January 1, 2001, five thousand dollars (\$5,000), or effective on or after March 28, 2005, one thousand dollars (\$1,000), the Committee will distribute that single sum-amount to a Deferred Vested Participant as soon as practicable upon his termination of employment.

Section 9.15 - Underwriting of Benefits

The Company in its sole discretion and from time to time may direct the Trustee to provide the benefits hereunder for one or more Participants or their Beneficiaries by purchase of insurance company annuity contracts (individual or group) or otherwise.

Section 9.16 - Misstatement in Application for Benefits

If any person in his application to participate in the Plan or for benefits hereunder, or in response to any request of the Committee or an Employer for information, makes any statement which is erroneous or omits any material fact or fails before receiving his first payment to correct any information he previously incorrectly furnished to the Employer or the Committee for its records, the amount of his retirement income will be adjusted on the basis of the true facts, and the amount of any overpayment made to such person will be deducted from his next succeeding payments as the Committee will direct.

Section 9.17 - Beneficiary Designation

Unless a valid Qualified Election pursuant to Section 7.2 is in effect at the time his Pension Commences, a Participant's surviving Eligible Spouse will be deemed a Designated Beneficiary for all purposes under the Plan without the filing of a Beneficiary designation form with the Committee as hereinafter provided. No other Beneficiary designation by the Participant, except to designate a contingent Beneficiary or Beneficiaries to receive benefits if the Participant dies unmarried, will be effective without such a valid Qualified Election.

Each unmarried Participant or Participant and Spouse who have completed a Qualified Election pursuant to Section 7.2, having elected an optional form of Pension providing for death benefits, may from time to time designate a person or persons (who may be designated contingently or

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successively and who may be an entity other than a natural person) as a Beneficiary or Beneficiaries to whom Plan benefits are paid if the Participant dies before receipt of all such benefits. Each Beneficiary designation will be filed in the form prescribed by the Committee and will be effective only when filed with the Committee during the Participant's lifetime. Each Beneficiary designation filed with the Committee will cancel all Beneficiary designations previously filed with the Committee. The revocation of a Beneficiary designation described in this paragraph, no matter how effected, will not require the consent of any Designated Beneficiary, except the Participant's Spouse. Any cancellation of such Beneficiary designation without filing another Beneficiary designation will be interpreted as a revocation of a Qualified Election, such that a Participant's spouse will once again be deemed his Designated Beneficiary.

If any Participant is not survived by any Beneficiary or Beneficiaries as designated above, any death benefit payable hereunder upon the Participant's death will be paid to the executor or administrator of the Participant's estate.

A surviving Beneficiary of a Participant may designate a Beneficiary to whom Plan benefits are to be paid if (i) the Beneficiary's death occurs before receipt of all benefits otherwise payable, and (ii) without survival of a successive Beneficiary appointed by the Participant, or such successive Beneficiary has also

died. Provided, however, if the surviving Beneficiary was the Participant's Spouse, no successive Beneficiary designation by the Participant and his spouse will have any effect without a prior Qualified Election. If such a surviving Beneficiary dies before receiving the entire benefit otherwise payable and has not designated a Beneficiary to whom his Plan benefits are to be paid if death occurs before receipt of such benefits (and said Beneficiary is not survived by a successive Beneficiary appointed by the Participant and his spouse, or the successive Beneficiary has also died), the remainder of such benefits will be paid to such Beneficiary's spouse, if living, or otherwise to the executor or administrator of such Beneficiary's estate.

ARTICLE X

AMENDMENT, RIGHT TO TERMINATE AND ACTION BY EMPLOYER

Section 10.1 - Right to Amend

The Company reserves the right at any time and from time to time by action of its Board to modify or amend in whole or in part any or all of the provisions of this Plan. No amendment to the Plan (including a change in the Actuarial Equivalency for determining optional or Early Retirement benefits) will be effective to the extent that it has the effect of decreasing a Participant's accrued benefit. Notwithstanding the preceding sentence, a Participant's accrued benefit may be reduced to the extent permitted under Code Section 412(c)(8). For purposes of this paragraph, a plan amendment which has the effect of (1) eliminating or reducing an Early Retirement benefit or a retirement-type subsidy, or (2) eliminating an optional form of benefit, with respect to benefits attributable to Service before the amendment will be treated as reducing accrued benefits. In the case of a retirement-type subsidy, the preceding sentence will apply only with respect to a Participant who satisfies (either before or after the amendment) the preamendment conditions for the subsidy. In general, a retirement-type subsidy is a subsidy that continues after Retirement, but does not include a qualified disability benefit, a medical benefit, a social security supplement, a death benefit (including life insurance), or a plant shutdown benefit (that does not continue after retirement age). Furthermore, no amendment to the plan will have the effect of decreasing a Participant's vested interest determined without regard to such amendment as of the later of the date such amendment is adopted, or becomes effective.

Provided, however, a retroactive reduction in benefits will be permissible if the Secretary of Labor determines that such retroactive reduction is required to avoid a substantial business hardship and that a variance from the minimum funding standards under ERISA is unavailable or inadequate to relieve such hardship; provided, further, if any such modification or amendment resulting in a retroactive reduction in benefits is so approved, and the total value of such reduced benefits based upon the actuarial assumptions then in effect will not be less than the value of the assets of the Trust Fund on the effective date of such modification or amendment.

Notwithstanding anything herein to the contrary, the Board in its sole discretion may make any modifications or amendments, additions or deletions in this Plan as to benefits or otherwise, retroactively if necessary, and regardless of the effect on the rights of any particular Participants, which it deems appropriate in order to bring this Plan into conformity with or to satisfy any conditions of the Code or ERISA or any other law which may apply to this Plan and in order to maintain the qualification of this Plan and the Trust Agreement under Code Section 401 (a) and to maintain the tax-exempt status of the Trust under Code Section 501(a).

Section 10.2 - Right to Discontinue Benefit Accrual

The Company and any applicable Employer reserves the right to provide that the benefits accrued for affected Participants be "frozen" as of a specified date and be distributed on an ongoing Plan basis in accordance with the applicable provisions for Retirement, death or other termination of

employment. In such event, any portion of the liabilities for such accrued benefits which are not yet funded will continue to be funded by the Employer(s) or former Employer(s) whose employees are affected or the applicable portion of the Plan will be deemed terminated.

Section 10.3 - Right to Terminate

The Company reserves the right to terminate this Plan in whole or in part at any time. In the event of a complete or partial termination of the Plan (within the meaning of Code Section 411 (d)(3) and regulations issued thereunder), the provisions of Schedule I hereof will apply, as applicable. If one or more participating Employers discontinue participation in the Plan under circumstances which do not constitute a complete or partial termination of the Plan, the Plan as it applies to Eligible Employees and former Eligible Employees of such Employer or Employers will continue until such time as the Company terminates the Plan or until the applicable portion of the Trust Fund, to the extent available, will have been distributed in accordance with the Plan. Upon termination or partial termination of the Plan, the rights of all affected Participants to any benefits provided under the Plan which have accrued to the date of termination or partial termination will be nonforfeitable.

Section 10.4 - Action by Employer

Any action by an Employer under this Plan may be by resolution of its board of directors, or by any person or persons duly authorized by resolution of said board to take such action.

ARTICLE XI

SUCCESSOR EMPLOYER AND MERGER OR CONSOLIDATION OF PLANS

Section 11.1 - Successor Employer

In the event of the dissolution, merger, consolidation or reorganization of an Employer, provision may be made by which the Plan and Trust will be continued by the successor; and, in that event, such successor will be substituted for such Employer under the Plan. Unless otherwise provided, the substitution of the successor will constitute an assumption of the Plan liabilities by the successor and the successor will have all of the powers, duties and responsibilities of the Employer under the Plan. The applicable provisions of Section 2.4 will apply in respect to mergers, consolidations or reorganizations.

If any entity other than an Employer acquires an Employer or any plant, division, department or operation of an Employer as a going concern, then the Company, as determined by the Board, may, in lieu of the normal operation of Section 4.5 or Schedule I hereof, cause any part of the Trust Fund which is allocable to Participants who thereupon become employed (directly or indirectly) by the acquirer and their Eligible Spouses, Contingent Annuitants and Beneficiaries, if any, to be segregated and deposited in a separate fund, which fund will thereafter be held subject to a separate plan governed by the same provisions as this Plan, until amended. Such allocation of Trust Fund assets will be determined by the Actuary in accordance with the manner and priority described for allocation in Schedule I. Unless otherwise provided, such event will constitute the assumption by the acquirer (through such separate plan) of this Plan's liabilities related to the acquirer's employees, and the acquirer will assume all the powers, duties and responsibilities of the sponsoring Company under the separate plan. In such case, this Plan will not be deemed terminated or discontinued in whole or in part as it applies to any Employer. Alternatively, the Company may discontinue this Plan as to such acquired Employer or unit and the provisions of Section 4.5 or Schedule I hereof, whichever is applicable, will be applied.

Section 11.2 – Merger

Neither the merger of any Employer with any other organization nor the merger of this Plan with any other retirement plan will in and of itself result in the termination of this Plan or be deemed a termination of employment with respect to any Eligible Employee.

However, this Plan may not be merged nor its assets transferred to any other retirement plan unless:

- (a) The benefit to which each Participant and Beneficiary would be entitled upon termination of the Plan immediately after such merger will be equal to or greater than the benefit to which he would be entitled if this Plan were to terminate immediately prior to such merger, except as otherwise specified or allowed by applicable federal law or regulations; and

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- (b) Resolutions of the board of directors of the Employer under this Plan, and any new or successor Employer employing Participants, will authorize such transfer of assets; and
- (c) Such other plan and trust are qualified under Code Sections 401(a) and 501(a).

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ARTICLE XII

MISCELLANEOUS PROVISIONS

Section 12.1 - Nonguarantee of Employment

Nothing contained in this Plan or in the forms issued pursuant to this Plan will be construed as a contract of employment or reemployment between an Employer and any employee, or as a right of any employee to be continued in the employment of an Employer or to be rehired by an Employer, or as a limitation of the right of an Employer to discharge any of its employees, with or without cause.

Section 12.2 - Rights to Trust Assets

No Eligible Employee will have any right to, or interest in, any assets of the Trust Fund upon termination of his employment or otherwise, except as provided from time to time under this Plan, and then only to the extent of the benefits payable under the Plan to such Eligible Employee out of the assets of the Trust Fund.

None of the Trustees, any applicable insurance company (except as otherwise provided in any applicable insurance or annuity contract), the Committee, or any Employer in any way guarantees the Trust Fund from loss or depreciation. The Employers do not guarantee any payment to any person.

Except as otherwise provided by law, no benefit, payment or distribution under this Plan will be subject either to the claim of any creditor of a Participant, Eligible Spouse, Contingent Annuitant or Beneficiary, or to attachment, garnishment, levy (other than a federal tax levy under Code Section 6331), execution or other legal or equitable process, by any creditor of such person, and no such person will have any right to alienate, commute, anticipate or assign (either at law or equity) all or any portion of any benefit, payment or distribution under this Plan. Notwithstanding the above, payment will be made pursuant to a Qualified Domestic Relations Order as defined in Code Section 414(p) and may be made in the form of an immediate lump sum if such form is elected by the alternate payee designated in that Order.

The Trust Fund will not in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to benefits hereunder.

If any Participant's benefits are garnished or attached by order of any court, the Committee may elect to bring an action for a declaratory judgment in a court of competent jurisdiction to determine the proper recipient of the benefits to be paid by the Plan. During the pendency of said action, any benefits that become payable may be paid into the court as they become payable, to be distributed by the court to the recipient it deems proper at the close of said action.

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Section 12.3 - Disallowance of Contribution Deduction

In the event the Commissioner of the Internal Revenue or his delegate rules that a contribution deduction for all or a part of the Employer's contribution to this plan is not allowed, the Employer will recover, within one (1) year after the disallowance of such contribution deduction, that portion of the Employer's contribution for which no deduction was permitted to be taken or allowed.

Section 12.4 - Mistake of Fact

A contribution made by the Employer as a result of a mistake of fact shall be returned to the Employer by the Trustee within one (1) year after the payment of the contribution.

ARTICLE XIII

GENERAL PROVISIONS

Section 13.1 – Construction

In the construction of the Plan, the masculine will include the feminine and the singular the plural in all cases where such meanings would be appropriate.

Section 13.2 - Controlling Law

The law of the State of Ohio will be the controlling state law in all matters relating to the Plan and will apply to the extent that it is not preempted by the laws of the United States of America.

Section 13.3 - Effect of Invalidity of Provision

If any provision of this Plan is held invalid or unenforceable, such invalidity or unenforceability will not affect any other provisions hereof, and this Plan will be construed and enforced as if such provision had not been included.

Section 13.4 - Execution - Number of Copies

This Plan may be executed in any number of counterparts, each of which will be deemed an original, and the counterparts will constitute one and the same instrument, which will be sufficiently evidenced by any one thereof.

IN WITNESS WHEREOF, the Company has caused the Plan to be signed effective as of January 1, 2005.

BIG LOTS, INC.

By: /s/ Brad A. Waite

Print Name: Brad A. Waite

/s/ Joe Heuer

Attest:

Print Name: Joe Heuer

Title: Staff Counsel

Title: EVP

SCHEDULE I

TERMINATION OF PLAN

Section 1 - Effect on Participants

In the event of a complete or partial termination of the Plan, the rights of all applicable affected Participants, Eligible Spouses, Contingent Annuitants and Beneficiaries to benefits accrued to the date of such termination will be nonforfeitable (except to the extent that applicable law may preclude such vesting in order to prevent discrimination) and will be provided from the Plan assets to the extent funded in accordance with the provisions of this Schedule I.

Section 2 - Allocation of Assets

In the event of a complete or partial termination of the Plan, the Plan Administrator will cause the assets of the Plan which are available to provide benefits (after payment of any expenses properly chargeable to the Trust) to be allocated among affected Participants, Eligible Spouses, Contingent Annuitants and Beneficiaries. Such shares will be determined actuarially and distributed in accordance with the benefit priorities set forth in ERISA Section 4044 and regulations issued thereunder.

Section 3 - Distribution of Assets

Any distribution of benefits following a complete or partial termination of the Plan may be made in whole or in part in cash, in securities or other assets in kind (based on their fair market value as of the date of distribution), or in the form of installment or retirement income payments from the Trust, or in nontransferable annuity contracts, as the Committee in its discretion will determine.

Section 4 - Residual Amounts

In no event will the Company or any Employer receive any amount from the Trust Fund upon complete or partial termination of the Plan except that, and notwithstanding any other provision of the Plan, the Company (and participating Employers, as applicable) will receive such amounts, if any, as may remain after satisfaction of all Plan liabilities arising from variations between actual requirements and expected actuarial requirements.

SCHEDULE II

LIMITATION ON BENEFITS

Section 1 - Basic Limitation

- (a) In General - Except as otherwise provided in paragraph (c) below, the total annual amount of a Participant's Pension computed under Article V or, where applicable, Article VII of this Plan [and under any and all Other Plans of the Company or any Related Company which are considered "defined benefit plans" under ERISA Section 3(35)] will not exceed the smaller of the following two amounts:
- (i) ninety thousand dollars (\$90,000) subject to the adjustments described in Section 2(a) or (b) below, or
 - (ii) An amount equal to one hundred percent (100%) of his annual average earnings during the three (3) consecutive years of participation that produce the highest average, subject to the adjustments described in Sections 2(c) and 2(d) below.

Effective January 1, 1997, average annual earnings will not be in excess of the amount permitted under Code Section 401(a)(17), as indexed, for purposes of applying these limits.

- (b) If Pension Option Is In Effect - If the Pension is payable to the Participant in a form other than that of either a straight life annuity or the Qualified Joint and Survivor Pension, the amount of such Pension will be adjusted to the Actuarial Equivalent Pension on a straight life annuity beginning at the same age which is the Actuarial Equivalent of such benefit, for purposes of applying the above limitation. Prior to the first day of the first limitation year beginning in 1995, the Plan shall use an interest rate of (a) the rate used in Section 1.1 for determining Actuarial Equivalent or (b) five percent (5%), whichever is greater, in accordance with rules determined by the Commissioner of Internal Revenue. For limitation years beginning on or after January 1, 1995, the Actuarially Equivalent straight life annuity for purposes of applying the limitations under Code Section 415(b) to benefits that are not subject to Code Section 417(e)(3) is equal to the greater of the equivalent annual benefit computed using the interest rate and mortality table, or tabular factor, specified in the Plan for actuarial equivalence for the particular form of benefit payable, and the equivalent annual benefit computed using a five percent (5%) interest rate assumption and the applicable mortality table. For Plan benefits subject to Code Section 417(e)(3), the equivalent straight life annuity is equal to the greater of the equivalent annual benefit computed using the interest rate and mortality table specified in the Plan for the particular form of benefit payable and the equivalent annual benefit computed using the applicable interest rate and the applicable mortality table. The applicable interest rate used for determining actuarial

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equivalencies is the annual interest rate on 30-year Treasury securities as specified by the Commissioner. The applicable mortality table is the mortality table described in Revenue Ruling 2001-62. For the purposes of the adjustment described in this Section, the following values will not be taken into account:

- (i) the value of a qualified joint and survivor annuity as defined in Code Section 401(a)(11)(G)(iii) to the extent that such value exceeds the sum of the value of a straight life annuity beginning on the same date, and the value of any post-retirement death benefits that would be payable absent the qualified joint and survivor annuity;
 - (ii) the value of benefits not directly related to retirement benefits, such as pre-retirement death benefits; and
 - (iii) the value of benefits which reflect post-retirement cost-of-living increases.
- (c) Exemption For Ten Thousand Dollar (\$10,000) Pension - A Participant's Pension will not be subject to the limitations described in this Schedule II if:
- (iii) The annual amount of his Pension computed under Article V or, where applicable, Article VII of this Plan, and under all Other Plans of the Company or any Related Company which are considered "defined benefit plans" under ERISA Section 3(35), does not exceed ten thousand dollars (\$10,000) (subject to the adjustment described in Section 2(c) below), and
 - (iv) At no time did he participate in a plan maintained by the Company or any Related Company, which is, considered a "defined contribution plan" under ERISA Section 3(34).

Section 2 - Adjustments to Basic Limitation

- (a) Adjustment If Pension Begins Before a Participant's Social Security Retirement Age - If any Pension commences under this Plan at or after Attained Age sixty-two (62), but prior to the Participant's Social Security Retirement Age (SSRA), then a Pension may not exceed an annual benefit of ninety thousand dollars (\$90,000) reduced by (i) in the case of a Participant whose SSRA is sixty-five (65), five-ninths (5/9) of one percent (1%) for each month by which a Pension commences before the month in which the Participant attains age sixty-five (65) or (ii) in the case of a Participant whose SSRA is greater than sixty-five (65), five-ninths (5/9) of one percent (1%) for each of the first thirty-six (36) months and five-twelfths (5/12) of one percent (1%) for each of the additional months (up to twenty-four (24)) by which a Pension commences before the month in which the Participant attains SSRA.

If any Pension begins before age sixty-two (62), the Pension is limited to the actuarial equivalence of the Participant's limitation for Pension commencing at age

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sixty-two (62), with the reduced dollar limitation for such Pension further reduced for each month by which Pension commences before the

month in which the Participant attains age sixty-two (62). For Plan Years beginning on or after January 1, 1995, if any Participant commences receipt of his Pension before his is age sixty-two (62), the Pension may not exceed the lesser of the equivalent amount computed using the interest rate and mortality table (or tabular factor) used in the Plan for Actuarial Equivalence for Early Retirement benefits, and the amount computed using five percent (5%) interest and the applicable mortality table (to the extent that the mortality decrement is used prior to age sixty-two (62), regardless of whether the Pension is or is not subject to Code section 417(e)(3).

Adjustment if Pension Begins After a Participant's Social Security Retirement Age - If a Pension commences after a Participant's Social Security Retirement Age the ninety thousand dollars (\$90,000) limitation will be increased to the Actuarial Equivalent of a ninety thousand dollars (\$90,000) benefit beginning at the Participant's Social Security Retirement Age, multiplied by the "adjustment factor" prescribed by the Secretary, using the interest rate assumption used to determine actuarial equivalence for this purpose must be the lesser of the equivalent amount computed using the interest rate and mortality table (or tabular factor) used in the Plan for actuarial equivalence for Late Retirement benefits, and the amount computed using five percent (5%) and the applicable mortality table, regardless of whether the benefit is nor is not subject to Code Section 417(e)(3). However, the Pension payable must not exceed one hundred percent (100%) of the Participant's annual average earnings during the three (3) consecutive years of participation that produces the highest average.

- (b) Reduction for Participation and Service Less Than Ten Years - Notwithstanding the basic limits of Section 1, a Participant's benefit will be adjusted by the following:
- (i) If a Participant has completed less than ten years of participation, the amount of the basic limitation described in Section 1(a)(i) will be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant's number of years (or part thereof) of participation and the denominator of which is ten (10).
 - (ii) If a Participant has completed less than ten (10) years of Credited Service, the amount of the basic limitation described in Section 1(a)(ii), and the ten thousand dollars (\$10,000) exemption described in Section 1(c) above, will be adjusted by multiplying such amount by a fraction, the numerator of which is his Credited Service and the denominator of which is ten (10). For the purposes of this subsection, any Service rendered after the Participant's Normal Retirement Date will be counted as Credited Service.

To the extent prescribed by the Secretary, the limitations of this subsection will be applied separately to each change in the benefit structure of the Plan.

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- (c) Cost-of-Living Adjustment - The amounts used under subparagraphs (i) and (ii) of Section 1(a) in determining the basic limitation are subject to annual adjustment with respect to any Plan Year beginning after January 1, 1988, effective January 1 of the year for which the adjustment is made, by the Secretary of the Treasury or his delegate in accordance with regulations issued under Code Section 415(d), to reflect increases in the cost of living. The dollar limitation determined by the Secretary of the Treasury for a given calendar year will be the maximum permissible dollar amount for the Plan Year commencing during such calendar year.
- (d) Protection of Current Accrued Retirement Pensions - If the current Accrued Retirement Pension of a Participant as of January 1, 1987, exceeds the limitations expressed herein, and the Plan met prior to that date all requirements of Code Section 415, then for purposes of this Schedule the limit in Section 1 (a)(i) with respect to such individual will equal his Accrued Retirement Pension.

Notwithstanding the above, if the Participant was a Participant as of the first day of the first limitation year beginning after December 31, 1986, in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than one hundred twenty-five percent (125%) of the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last limitation year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Section 415 for all limitation years beginning before January 1, 1987.

If the employee was a Participant as of the end of the first day of the first limitation year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit plan fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (1) the excess of the sum of the fraction over 1.0 times (2) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last limitation year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the Code Section 415 limitation applicable to the first limitation year beginning on or after January 1, 1987.

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Section 3 - Dual Plan Limitation

If a Participant of this Plan also has participated in another plan of the Company or any Related Company belonging to the controlled group of corporations of which the Company is a member as described in Section 1.29 of the Plan, which is considered a "defined contribution plan" under Code Section 414(i) then, in addition to being subject to the basic limitation under Section 1 above, his benefit under this Plan will be subject to the limitation contained herein.

The sum of the "defined benefit plan fraction" (as defined hereinafter) and the "defined contribution plan fraction" (as defined hereinafter) for any year will not exceed 1.0.

The defined benefit plan fraction for any year will be a fraction the numerator of which is the projected annual benefit of the Participant under the Plan (determined as of the close of the year), and the denominator of which is the lesser of (i) the product of 1.25, multiplied by the dollar limitation in effect under Code Section 415(b)(1)(A) for such year, or (ii) the product of 1.4 multiplied by the amount which may be taken into account under Code Section 415(b)(1)(B) with respect to such individual under the Plan for such year.

The defined contribution plan fraction for any year will be a fraction the numerator of which is the sum of the annual additions to the Participant's account as of the close of the year, and the denominator of which is the sum of the lesser of the following amounts determined for such year and for each prior year of Service with the employer:

- (i) the product of 1.25, multiplied by the dollar limitation in effect under Code Section 415(c)(1)(A) for such year [determined without regard to Code Section 415(c)(6)], or
- (ii) the product of 1.4 multiplied by the amount which may be taken into account under Code Section 415(c)(1)(B) with respect to such individual under such plan for such year.

In any year in which the sum of the defined benefit and defined contribution fractions exceed 1.0, the rate of accrual under this Plan will be reduced to the extent necessary so that the sum of the defined benefit and defined contribution fractions in any limitation year does not exceed 1.0. If necessary, to make further reductions to create compliance at 1.0, the Committee will adopt procedures to coordinate reduction in any defined contribution plans maintained by the Company or Related Company.

Notwithstanding the foregoing, for Plan Years commencing on or after January 1, 2000, the limitation prescribed in Code Section 415(e) as described in this Section 3 will no longer apply. Any increase in a Participant's Accrued Benefit which is solely from the repeal of the limitations described in the immediately preceding sentence will not be recognized if the Participant's Accrued Benefit was zero prior to January 1, 2000.

Section 4 - Provisions for Excess Benefit

If the provisions of this Schedule II require that a Participant's Pension be reduced in order to satisfy one of the aforesaid limitations, his Employer may nevertheless determine that such Participant will receive his full unreduced Pension determined without regard to said limitations. In that event, however, the portion of his Pension under this Plan which is in excess of said limitations will be considered an "excess benefit plan" under ERISA Section 3(36) and such "excess benefit" will be paid directly by the Employer and will not be paid from the Trust Fund.

Section 5 - Average Annual Earnings

For purposes of this Schedule II, "average annual earnings" will mean wages, salaries, effective January 1, 1998, amounts deferred under Code Sections 401(k), 125 and, effective January 1, 2001, 132(f) and fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer maintaining the Plan to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, reimbursements, and expense allowances), and excluding the following:

- (a) Employer contributions to a plan of deferred compensation which are not includable in the employee's gross income for the taxable year in which contributed, or Employer contributions under a simplified employee pension plan to the extent such contributions are deductible by the employee, or any distributions from a plan of deferred compensation;
- (b) amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by the employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;
- (c) amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and
- (d) other amounts which received special tax benefits, or contributions made by the Employer, whether or not under a salary reduction agreement, towards the purchase of an annuity described in Code Section 403(b), whether or not the amounts are actually excludable from the gross income of the employee.

For limitation years beginning after December 31, 1991, for purposes of applying the limitations of this Schedule II, compensation for a limitation year is the compensation actually paid or includable in gross income during such limitation year.

SCHEDULE III

PARTICIPATING EMPLOYERS

Section 1 - Participating Employers. The following Employers are Participating Employers under the Plan with regard to their Eligible Employees who became Participants in the Plan prior to the date the Plan was frozen.

Employers

Big Lots Stores, Inc.

C. S. Ross Company

PNS Stores, Inc.

Closeout Distribution, Inc.

CSC Distribution, Inc.

Durant DC, LLC

SCHEDULE IV
TOP-HEAVY PROVISIONS

Section 1 – Application

The provisions of this Schedule IV will apply only if the Plan becomes “top-heavy” (as defined in Code Section 416(g)), aggregating this Plan and any other qualified plan sponsored by the Employer or a Related Company in which a key employee is a Participant and each Other Plan of the Employer or a Related Company (including any terminated plan that covered a Key Employee and was maintained within the five (5) year [effective January 1, 2002, one (1) year] period ending on the determination date) which enables this Plan or any plan in which a key employee participates to meet the requirements of Code Sections 401 (a)(4) or 410(b) (“required aggregation group”). In addition, the Administrator may elect to include with the required aggregation group any other plan or plans of the Employer or a Related Company not required to be included in the required aggregation group so long as their inclusion as a part of the group would not cause such group to fail to meet the requirements of Code Section 401 (a) and 410 (“permissive aggregation group”). If aggregation groups, as described in the immediate prior sentence, include two (2) or more defined benefit plans, the present value of the Accrued Retirement Pensions will be determined assuming an interest rate of five percent (5%) per annum, no preretirement mortality, disability or termination, and postretirement mortality according to the 1971 Group Annuity Mortality table

A Plan is top-heavy, generally, if the present value of the Accrued Retirement Pensions of employees who are Key Employees (as defined in Code Section 416(i) exceeds sixty percent (60%) of the present value of the Accrued Retirement Pensions of all Participants (the 60% Test). Each present value shall be computed assuming the assumptions provided in the last sentence of the immediately preceding paragraph. In subsequent Plan Years, the test will be made on the valuation date used for the computing Plan costs for minimum funding purposes, regardless of whether a valuation is performed that year. However, and notwithstanding the results of the 60% Test, the Plan will not be considered a Top Heavy Plan for any Plan Year in which the Plan is a part of a required or permissive aggregation group.

In making the 60% Test, each present value will be computed more than sixty percent (60%) of the value of the Individual Accounts of Participants in this Plan (disregarding the Individual Accounts of those Participants who have performed no Service for the Employer during the five (5) year period ending on the determination date (effective January 1, 2002, the one (1) year period ending on the determination date)) and the accrued benefit of any member in any defined benefit plan maintained by his Employer or a Related Company as of any “determination date” (the last day of the Prior Plan Year), is attributable to key employees. Computation of the top-heavy ratio will be determined in accordance with Code Section 416(g). The present value of accrued benefits in any Employer or Affiliate sponsored defined benefit plan will be determined on the valuation date used for computing Plan costs under Code Section 412 and will be determined on the basis of the actuarial assumptions specified in such defined benefit plan for purposes of making the top-heavy determination. If the Plan becomes top-heavy as of any determination date, then effective in the next succeeding Plan Year, the provisions of this Schedule IV will apply.

Section 2 - Special Vesting Rule

Notwithstanding the provisions of the Plan to the contrary, a Participant will be fully vested hereunder upon the completion of three (3) rather than five (5) years of Service as determined in accordance with the following schedule:

Years of Service	Vested Percentage
Less than 3	0%
3	100%

If the Plan becomes a top-heavy Plan and subsequently ceases to be such:

- (a) any portion of the Participant’s Accrued Benefit which was vested before the Plan ceased to be top-heavy will remain vested; and
- (b) any Participant with three (3) or more years of Service will be given the option to remain under the top-heavy vesting schedule contained in this Section IV.1.02, in lieu of the vesting schedule contained in Article V.

Section 3 - Special Minimum Benefit

Notwithstanding the provisions of Article IV hereof to the contrary, each Participant of the Plan who is not a key employee and who has been credited with one thousand (1,000) hours of Service during the Plan Year will be entitled to a minimum Accrued Benefit equal to (i) the amount otherwise provided by this Plan or (ii) two percent (2%) of the Participant’s average monthly compensation (as defined in Code Section 415) for the five (5) consecutive years when his aggregate compensation was highest multiplied by his years of Credited Service earned after 1983, up to ten (10) years, for each Plan Year in which the Plan was top-heavy, whichever is greater.

Each non-key employee who is a Participant in the Plan and who has completed at least one thousand (1,000) Hours of Service during an accrual Computation Period must accrue a minimum benefit in accordance with the top-heavy rules, regardless of whether a non-key employee is employed on a specified date, such as the last day of the year.

Section 4 - Special Maximum Combined Plans Limit

Notwithstanding the provisions of Section 3 of Schedule II to the contrary, the denominator of the defined contribution plan fraction and defined benefit plan fraction will, if the Plan becomes top-heavy, be amended to read 1.0 rather than 1.25. This provision does not apply to Plan Years beginning on or after January 1, 2000.

Section 5 - Key Employee and Non-Key Employee Defined

The term key employee will have the same meaning as is specified in Code Section 416(i)(1), i.e., (i) certain officers of the Employer having an annual Compensation greater than fifty percent (50%) of the defined benefit plan dollar limitation in effect under Code Section 415(b)(1)(A) for

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any such Plan Year (effective January 1, 2002, an officer must earn in excess of one hundred thirty thousand dollars (\$130,000) to be a key employee), (ii) the ten (10) employees owning (or considered as owning under Code Section 318) more than a one half percent 1/2%) interest and one of the tenth largest equity interests of the Employer whose annual Compensation is greater than the defined contribution dollar limitation in effect under Code Section 415 of any such Plan Year (effective January 1, 2002, this top ten (10) owner category is eliminated), (iii) any five percent (5%) owner of the Employer and (iv) any one percent (1%) owner of the Employer whose annual Compensation in any Plan Year is more than one hundred and fifty thousand dollars (\$150,000). The term key employee as of any determination date will be applied to any employee, Former employee, Participant, Former Participant or Retired Participant (or his Spouse or Beneficiary) who was a key employee during the Plan Year (ending with the determination date) or in any of the four (4) preceding Plan Years (effective January 1, 2002, the four-(4) year look-back period is eliminated). Any employee who is not a key employee will be a non-key employee and will include an employee who was formerly a key employee.

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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 18, 2005, relating to the consolidated financial statements and financial statement schedule of Big Lots, Inc. and subsidiaries (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement described in Note 2) and management's report on the effectiveness of internal control over financial reporting appearing in the Annual Report on Form 10-K of Big Lots, Inc. for the year ended January 29, 2005.

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;
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; and
6. Registration Statement No. 333-41143 on Form S-4 pertaining to the issuance of Big Lots, Inc. Common Shares.

DELOITTE & TOUCHE LLP

Dayton, Ohio
April 18, 2005

SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, SHELDON M. BERMAN, presently residing at 7000 N. 16th Street, Suite 120-480, Phoenix, AZ 85020, does hereby appoint Michael J. Potter, Charles W. Haubiel and Chadwick P. Reynolds, respectively and each of them, and each of them having full power of substitution for the other, as his lawful attorney-in-fact, and hereby empowers each of them to act singly or in concert for the limited purpose of preparing, executing and filing on behalf of the undersigned any registration statement, prospectus, underwriting agreement, and all periodic reports required to be filed either he or by Big Lots, Inc. on Form 10-K, Form 10-Q, Form 8-K, Form 3, Form 4, Form 5, Form 144, or such other form as may be required, respectively as the case may be, with the Securities and Exchange Commission and with any securities exchange on which such security is listed or traded, as may from time-to-time be required pursuant to the Securities Act of 1933 as amended, the Securities Exchange Act of 1934 as amended, or the rules which are promulgated from time-to-time under either of such Acts, or the rules of any securities exchange.

This Special Power of Attorney is limited to the specific acts herein described and is made effective the date last below written, and shall continue in full force and effect until revoked by the undersigned. This Special Power of Attorney, and the appointment and empowerment herein made, shall not be deemed revoked or superseded, or otherwise affected, by the illness, incapacity or death of the undersigned until such time as the earlier occurring of either (i) a period of one year shall have elapsed from the date of such illness, incapacity or death, or (ii) the receipt by each of the above named appointees of a writing which revokes this Special Power of Attorney issued by the lawful Personal Representative, Custodian or Conservator, of the undersigned.

/s/ Sheldon M. Berman

SHELDON M. BERMAN

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

BEFORE ME, the undersigned Notary Public in and for said county and state, did personally appear on this 15th day of November, 2004, the above-signed individual known to me to be SHELDON M. BERMAN, and upon oath duly sworn did testify that the signing of the above and foregoing instrument did constitute his free and voluntary act and deed.

/s/ Leshell L. Duncan

NOTARY PUBLIC

[SEAL]

My Commission expires: 12-21-2008

SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, DAVID T. KOLLAT, presently residing at 4410 Smothers Road, Westerville, OH 43081, does hereby appoint Michael J. Potter, Charles W. Haubiel and Chadwick P. Reynolds, respectively and each of them, and each of them having full power of substitution for the other, as his lawful attorney-in-fact, and hereby empowers each of them to act singly or in concert for the limited purpose of preparing, executing and filing on behalf of the undersigned any registration statement, prospectus, underwriting agreement, and all periodic reports required to be filed either he or by Big Lots, Inc. on Form 10-K, Form 10-Q, Form 8-K, Form 3, Form 4, Form 5, Form 144, or such other form as may be required, respectively as the case may be, with the Securities and Exchange Commission and with any securities exchange on which such security is listed or traded, as may from time-to-time be required pursuant to the Securities Act of 1933 as amended, the Securities Exchange Act of 1934 as amended, or the rules which are promulgated from time-to-time under either of such Acts, or the rules of any securities exchange.

This Special Power of Attorney is limited to the specific acts herein described and is made effective the date last below written, and shall continue in full force and effect until revoked by the undersigned. This Special Power of Attorney, and the appointment and empowerment herein made, shall not be deemed revoked or superseded, or otherwise affected, by the illness, incapacity or death of the undersigned until such time as the earlier occurring of either (i) a period of one year shall have elapsed from the date of such illness, incapacity or death, or (ii) the receipt by each of the above named appointees of a writing which revokes this Special Power of Attorney issued by the lawful Personal Representative, Custodian or Conservator, of the undersigned.

/s/ David T. Kollat

DAVID T. KOLLAT

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

BEFORE ME, the undersigned Notary Public in and for said county and state, did personally appear on this 15th day of November, 2004, the above-signed individual known to me to be DAVID T. KOLLAT, and upon oath duly sworn did testify that the signing of the above and foregoing instrument did constitute his free and voluntary act and deed.

/s/ Leshell L. Duncan

NOTARY PUBLIC

[SEAL]

My Commission expires: 12-21-2008

SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, BRENDA J. LAUDERBACK, presently residing at 1755 Bridgewater Road, Golden Valley, MN 55422, does hereby appoint Michael J. Potter, Charles W. Haubiel and Chadwick P. Reynolds, respectively and each of them, and each of them having full power of substitution for the other, as her lawful attorney-in-fact, and hereby empowers each of them to act singly or in concert for the limited purpose of preparing, executing and filing on behalf of the undersigned any registration statement, prospectus, underwriting agreement, and all periodic reports required to be filed either she or by Big Lots, Inc. on Form 10-K, Form 10-Q, Form 8-K, Form 3, Form 4, Form 5, Form 144, or such other form as may be required, respectively as the case may be, with the Securities and Exchange Commission and with any securities exchange on which such security is listed or traded, as may from time-to-time be required pursuant to the Securities Act of 1933 as amended, the Securities Exchange Act of 1934 as amended, or the rules which are promulgated from time-to-time under either of such Acts, or the rules of any securities exchange.

This Special Power of Attorney is limited to the specific acts herein described and is made effective the date last below written, and shall continue in full force and effect until revoked by the undersigned. This Special Power of Attorney, and the appointment and empowerment herein made, shall not be deemed revoked or superseded, or otherwise affected, by the illness, incapacity or death of the undersigned until such time as the earlier occurring of either (i) a period of one year shall have elapsed from the date of such illness, incapacity or death, or (ii) the receipt by each of the above named appointees of a writing which revokes this Special Power of Attorney issued by the lawful Personal Representative, Custodian or Conservator, of the undersigned.

/s/ Brenda J. Lauderback

BRENDA J. LAUDERBACK

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

BEFORE ME, the undersigned Notary Public in and for said county and state, did personally appear on this 15th day of November, 2004, the above-signed individual known to me to be BRENDA J. LAUDERBACK, and upon oath duly sworn did testify that the signing of the above and foregoing instrument did constitute her free and voluntary act and deed.

/s/ Leshell L. Duncan

NOTARY PUBLIC
[SEAL]
My Commission expires: 12-21-2008

SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, PHILIP E. MALLOTT, presently residing at 8606 Button Bush Lane, Westerville, OH 43082, does hereby appoint Michael J. Potter, Charles W. Haubiel and Chadwick P. Reynolds, respectively and each of them, and each of them having full power of substitution for the other, as his lawful attorney-in-fact, and hereby empowers each of them to act singly or in concert for the limited purpose of preparing, executing and filing on behalf of the undersigned any registration statement, prospectus, underwriting agreement, and all periodic reports required to be filed either he or by Big Lots, Inc. on Form 10-K, Form 10-Q, Form 8-K, Form 3, Form 4, Form 5, Form 144, or such other form as may be required, respectively as the case may be, with the Securities and Exchange Commission and with any securities exchange on which such security is listed or traded, as may from time-to-time be required pursuant to the Securities Act of 1933 as amended, the Securities Exchange Act of 1934 as amended, or the rules which are promulgated from time-to-time under either of such Acts, or the rules of any securities exchange.

This Special Power of Attorney is limited to the specific acts herein described and is made effective the date last below written, and shall continue in full force and effect until revoked by the undersigned. This Special Power of Attorney, and the appointment and empowerment herein made, shall not be deemed revoked or superseded, or otherwise affected, by the illness, incapacity or death of the undersigned until such time as the earlier occurring of either (i) a period of one year shall have elapsed from the date of such illness, incapacity or death, or (ii) the receipt by each of the above named appointees of a writing which revokes this Special Power of Attorney issued by the lawful Personal Representative, Custodian or Conservator, of the undersigned.

/s/ Philip E. Mallott

PHILIP E. MALLOTT

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

BEFORE ME, the undersigned Notary Public in and for said county and state, did personally appear on this 15th day of November, 2004, the above-signed individual known to me to be PHILIP E. MALLOTT, and upon oath duly sworn did testify that the signing of the above and foregoing instrument did constitute his free and voluntary act and deed.

/s/ Leshell L. Duncan

NOTARY PUBLIC

[SEAL]

My Commission expires: 12-21-2008

SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, NED MANSOUR, presently residing at 15 Calle Viento, Rancho Palos Verdes, CA 90275, does hereby appoint Michael J. Potter, Charles W. Haubiel and Chadwick P. Reynolds, respectively and each of them, and each of them having full power of substitution for the other, as his lawful attorney-in-fact, and hereby empowers each of them to act singly or in concert for the limited purpose of preparing, executing and filing on behalf of the undersigned any registration statement, prospectus, underwriting agreement, and all periodic reports required to be filed either he or by Big Lots, Inc. on Form 10-K, Form 10-Q, Form 8-K, Form 3, Form 4, Form 5, Form 144, or such other form as may be required, respectively as the case may be, with the Securities and Exchange Commission and with any securities exchange on which such security is listed or traded, as may from time-to-time be required pursuant to the Securities Act of 1933 as amended, the Securities Exchange Act of 1934 as amended, or the rules which are promulgated from time-to-time under either of such Acts, or the rules of any securities exchange.

This Special Power of Attorney is limited to the specific acts herein described and is made effective the date last below written, and shall continue in full force and effect until revoked by the undersigned. This Special Power of Attorney, and the appointment and empowerment herein made, shall not be deemed revoked or superseded, or otherwise affected, by the illness, incapacity or death of the undersigned until such time as the earlier occurring of either (i) a period of one year shall have elapsed from the date of such illness, incapacity or death, or (ii) the receipt by each of the above named appointees of a writing which revokes this Special Power of Attorney issued by the lawful Personal Representative, Custodian or Conservator, of the undersigned.

/s/ Ned Mansour

NED MANSOUR

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

BEFORE ME, the undersigned Notary Public in and for said county and state, did personally appear on this 15th day of November, 2004, the above-signed individual known to me to be NED MANSOUR, and upon oath duly sworn did testify that the signing of the above and foregoing instrument did constitute his free and voluntary act and deed.

/s/ Leshell L. Duncan

NOTARY PUBLIC
[SEAL]
My Commission expires: 12-21-2008

SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, MICHAEL J. POTTER, presently residing at 2357 Colt’s Neck Road, Blacklick, OH 43004, does hereby appoint Charles W. Haubiel and Chadwick P. Reynolds, respectively and each of them, and each of them having full power of substitution for the other, as his lawful attorney-in-fact, and hereby empowers each of them to act singly or in concert for the limited purpose of preparing, executing and filing on behalf of the undersigned any registration statement, prospectus, underwriting agreement, and all periodic reports required to be filed either he or by Big Lots, Inc. on Form 10-K, Form 10-Q, Form 8-K, Form 3, Form 4, Form 5, Form 144, or such other form as may be required, respectively as the case may be, with the Securities and Exchange Commission and with any securities exchange on which such security is listed or traded, as may from time-to-time be required pursuant to the Securities Act of 1933 as amended, the Securities Exchange Act of 1934 as amended, or the rules which are promulgated from time-to-time under either of such Acts, or the rules of any securities exchange.

This Special Power of Attorney is limited to the specific acts herein described and is made effective the date last below written, and shall continue in full force and effect until revoked by the undersigned. This Special Power of Attorney, and the appointment and empowerment herein made, shall not be deemed revoked or superseded, or otherwise affected, by the illness, incapacity or death of the undersigned until such time as the earlier occurring of either (i) a period of one year shall have elapsed from the date of such illness, incapacity or death, or (ii) the receipt by each of the above named appointees of a writing which revokes this Special Power of Attorney issued by the lawful Personal Representative, Custodian or Conservator, of the undersigned.

/s/ Michael J. Potter

MICHAEL J. POTTER

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

BEFORE ME, the undersigned Notary Public in and for said county and state, did personally appear on this 15th day of November, 2004, the above-signed individual known to me to be MICHAEL J. POTTER, and upon oath duly sworn did testify that the signing of the above and foregoing instrument did constitute his free and voluntary act and deed.

/s/ Leshell L. Duncan

NOTARY PUBLIC
[SEAL]
My Commission expires: 12-21-2008

SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, RUSSELL SOLT, presently residing at 202 Third Street, Gearhart, OR 97138, does hereby appoint Michael J. Potter, Charles W. Haubiel and Chadwick P. Reynolds, respectively and each of them, and each of them having full power of substitution for the other, as his lawful attorney-in-fact, and hereby empowers each of them to act singly or in concert for the limited purpose of preparing, executing and filing on behalf of the undersigned any registration statement, prospectus, underwriting agreement, and all periodic reports required to be filed either he or by Big Lots, Inc. on Form 10-K, Form 10-Q, Form 8-K, Form 3, Form 4, Form 5, Form 144, or such other form as may be required, respectively as the case may be, with the Securities and Exchange Commission and with any securities exchange on which such security is listed or traded, as may from time-to-time be required pursuant to the Securities Act of 1933 as amended, the Securities Exchange Act of 1934 as amended, or the rules which are promulgated from time-to-time under either of such Acts, or the rules of any securities exchange.

This Special Power of Attorney is limited to the specific acts herein described and is made effective the date last below written, and shall continue in full force and effect until revoked by the undersigned. This Special Power of Attorney, and the appointment and empowerment herein made, shall not be deemed revoked or superseded, or otherwise affected, by the illness, incapacity or death of the undersigned until such time as the earlier occurring of either (i) a period of one year shall have elapsed from the date of such illness, incapacity or death, or (ii) the receipt by each of the above named appointees of a writing which revokes this Special Power of Attorney issued by the lawful Personal Representative, Custodian or Conservator, of the undersigned.

/s/ Russell Solt

RUSSELL SOLT

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

BEFORE ME, the undersigned Notary Public in and for said county and state, did personally appear on this 15th day of November, 2004, the above-signed individual known to me to be RUSSELL SOLT, and upon oath duly sworn did testify that the signing of the above and foregoing instrument did constitute his free and voluntary act and deed.

/s/ Leshell L. Duncan

NOTARY PUBLIC
[SEAL]
My Commission expires: 12-21-2008

SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, James R. Tener, presently residing at 2612 Meandering Court, Colleyville, Texas 76034, does hereby appoint Michael J. Potter, Charles W. Haubiel and Chadwick P. Reynolds, respectively and each of them, and each of them having full power of substitution for the other, as his lawful attorney-in-fact, and hereby empowers each of them to act singly or in concert for the limited purpose of preparing, executing and filing on behalf of the undersigned any registration statement, prospectus, underwriting agreement, and all periodic reports required to be filed either he or by Big Lots, Inc. on Form 10-K, Form 10-Q, Form 8-K, Form 3, Form 4, Form 5, Form 144, or such other form as may be required, respectively as the case may be, with the Securities and Exchange Commission and with any securities exchange on which such security is listed or traded, as may from time-to-time be required pursuant to the Securities Act of 1933 as amended, the Securities Exchange Act of 1934 as amended, or the rules which are promulgated from time-to-time under either of such Acts, or the rules of any securities exchange.

This Special Power of Attorney is limited to the specific acts herein described and is made effective the date last below written, and shall continue in full force and effect until revoked by the undersigned. This Special Power of Attorney, and the appointment and empowerment herein made, shall not be deemed revoked or superseded, or otherwise affected, by the illness, incapacity or death of the undersigned until such time as the earlier occurring of either (i) a period of one year shall have elapsed from the date of such illness, incapacity or death, or (ii) the receipt by each of the above named appointees of a writing which revokes this Special Power of Attorney issued by the lawful Personal Representative, Custodian or Conservator, of the undersigned.

/s/ James R. Tener

JAMES R. TENER

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

BEFORE ME, the undersigned Notary Public in and for said county and state, did personally appear on this 21st day of February, 2005, the above-signed individual known to me to be JAMES R. TENER, and upon oath duly sworn did testify that the signing of the above and foregoing instrument did constitute his free and voluntary act and deed.

/s/ Leshell L. Duncan

NOTARY PUBLIC

[SEAL]

My Commission expires: 12-21-2008

SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, DENNIS B. TISHKOFF, presently residing at One Miranova Place, Suite 2125, Columbus, OH 43215, does hereby appoint Michael J. Potter, Charles W. Haubiel and Chadwick P. Reynolds, respectively and each of them, and each of them having full power of substitution for the other, as his lawful attorney-in-fact, and hereby empowers each of them to act singly or in concert for the limited purpose of preparing, executing and filing on behalf of the undersigned any registration statement, prospectus, underwriting agreement, and all periodic reports required to be filed either he or by Big Lots, Inc. on Form 10-K, Form 10-Q, Form 8-K, Form 3, Form 4, Form 5, Form 144, or such other form as may be required, respectively as the case may be, with the Securities and Exchange Commission and with any securities exchange on which such security is listed or traded, as may from time-to-time be required pursuant to the Securities Act of 1933 as amended, the Securities Exchange Act of 1934 as amended, or the rules which are promulgated from time-to-time under either of such Acts, or the rules of any securities exchange.

This Special Power of Attorney is limited to the specific acts herein described and is made effective the date last below written, and shall continue in full force and effect until revoked by the undersigned. This Special Power of Attorney, and the appointment and empowerment herein made, shall not be deemed revoked or superseded, or otherwise affected, by the illness, incapacity or death of the undersigned until such time as the earlier occurring of either (i) a period of one year shall have elapsed from the date of such illness, incapacity or death, or (ii) the receipt by each of the above named appointees of a writing which revokes this Special Power of Attorney issued by the lawful Personal Representative, Custodian or Conservator, of the undersigned.

/s/ Dennis B. Tishkoff

DENNIS B. TISHKOFF

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

BEFORE ME, the undersigned Notary Public in and for said county and state, did personally appear on this 15th day of November, 2004, the above-signed individual known to me to be DENNIS B. TISHKOFF, and upon oath duly sworn did testify that the signing of the above and foregoing instrument did constitute his free and voluntary act and deed.

/s/ Leshell L. Duncan

NOTARY PUBLIC

[SEAL]

My Commission expires: 12-21-2008

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Potter, 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 18, 2005

By: /s/ Michael J. Potter

Michael J. Potter
*Chairman of the Board, Chief Executive Officer
and President*

**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 18, 2005

By: /s/ Joe R. Cooper

Joe R. Cooper
Senior Vice President and
Chief Financial Officer

**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 29, 2005, of Big Lots, Inc. (the "Company"). I, Michael J. Potter, 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 18, 2005

/s/ Michael J. Potter

Michael J. Potter
*Chairman of the Board, Chief Executive Officer
and President*

**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 29, 2005, 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 15, 2005

/s/ Joe R. Cooper

Joe R. Cooper
*Senior Vice President and
Chief Financial Officer*
