



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 31, 2004  
Commission file number 1-8897

BIG LOTS, INC.

(Exact name of registrant as specified in its charter)  
An Ohio Corporation  
IRS No. 06-1119097  
300 Phillipi Road  
P.O. Box 28512  
Columbus, Ohio 43228-0512  
(614) 278-6800

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 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, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant’s knowledge, in a 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 whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

The aggregate market value (based on the closing price on the New York Stock Exchange) of the Common Shares of the Registrant held by non-affiliates of the Registrant was \$1,779,840,345 on August 2, 2003.

The number of Registrant’s Common Shares outstanding as of March 26, 2004 was 117,403,510.

Documents Incorporated by Reference

Portions of the Registrant’s definitive Proxy Statement to security holders for its Annual Meeting of Shareholders to be held on May 18, 2004, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**FOR THE FISCAL YEAR ENDED JANUARY 31, 2004**  
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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 as a vehicle to effect the change of the state of incorporation of Consolidated (Delaware) from Delaware to Ohio through the Merger. The Merger was approved by the stockholders of Consolidated (Delaware) at the Annual Meeting of Stockholders held on May 15, 2001.

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. common shares automatically as a result of the Merger. By virtue of the Merger, Big Lots, Inc. has 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 Big Lots, Inc. common shares are deemed to be registered under the Exchange Act.

Big Lots, Inc. was incorporated in Ohio in fiscal year 2001. 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. The Company manages its business on the basis of one segment: broadline closeout retailing. At January 31, 2004, and February 1, 2003, all of the Company’s operations were located within the United States of America.

The Company is the nation’s largest broadline closeout retailer. At January 31, 2004, the Company operated a total of 1,430 stores, 1,385 under the name Big Lots, and 45 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](http://www.biglots.com). Wholesale operations are conducted through Big Lots Wholesale, Consolidated International, Wisconsin Toy, and with online purchasing at [www.biglotswholesale.com](http://www.biglotswholesale.com). The contents of the Company’s Web sites are not part of this report.

#### **CLOSEOUT RETAILING**

Closeout retailers provide a service to manufacturers by purchasing excess product that generally results from production overruns, package changes, discontinued products, or returns. Closeout retailers also take advantage of generally low prices in the off-season by buying and warehousing seasonal and general merchandise for future sales. As a result of these lower costs of goods, closeout retailers can offer merchandise at prices lower to significantly lower than those offered by traditional retailers.

The Company believes that recent trends in the retail industry are favorable to closeout retailers. These trends include consolidations within the retail industry as well as further emphasis on just-in-time inventory processes, which management believes has resulted in a shift of greater inventory risk to manufacturers and away from retailers. In addition, to maintain their market share in an increasingly competitive environment, management believes that manufacturers are introducing new products and new packaging on a more frequent basis. The Company believes that these trends have helped make closeout retailers an integral part of manufacturers’ overall capacity planning and production processes. As a result, management believes that manufacturers are increasingly looking to closeout retailers, such as the Company, that can purchase large quantities of merchandise and can control the distribution and advertising of specific products.

#### **RETAIL OPERATIONS**

The Company’s stores are known for their wide assortment of closeout merchandise. Certain core categories of merchandise 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, strengthening their role as dependable, one-stop shops for everyday

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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.

A large number of stores operate profitably in relative close proximity. For example, 536 of the total 1,430 stores operate in four states: California, Ohio, Texas, and Florida. The Company believes that there are substantial opportunities to increase store counts in existing markets as well as to expand into new markets.

### **WHOLESALE OPERATIONS**

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

Wholesale sales are recognized in accordance with the shipping terms agreed upon on 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.

### **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 customers. The Company has the ability to source and purchase significant quantities of a manufacturer's closeout merchandise in specific product categories and to control distribution in accordance with vendor instructions, thus providing a high level of service and convenience to these manufacturers. The Company supplements its traditional brand-name closeout purchases with various direct import and domestically sourced merchandise such as furniture, home décor, and seasonal items. The Company expects its purchasing power will continue to enhance its ability to source quality closeout merchandise for all of its stores at competitive prices.

The Company has a seasoned 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 consumer product manufacturers in the United States. As a result of these relationships and the Company's experience and reputation in the closeout industry, many manufacturers offer purchase 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 2003, the Company's top ten vendors accounted for 14.1% of total purchases (at retail) with no one vendor accounting for more than 2.2% of the aggregate.

The Company purchases approximately 25% of its products directly from overseas suppliers, and 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 continuing operations, or liquidity.

## 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, and other value-oriented specialty 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 that its management has long-standing relationships with its suppliers and is competitively positioned to continue to seek new sources in order to maintain an adequate continuing supply of quality merchandise at attractive prices.

## SEASONALITY

The Company has historically experienced, and expects to continue to experience, seasonal fluctuations, with a significant 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 store remodels, television and circular advertising, and the timing of certain holidays. Furthermore, in anticipation of increased sales activity during the fourth fiscal quarter, the Company purchases substantial amounts of inventory during the third fiscal quarter and hires a significant number of temporary employees to increase store staffing during the fourth fiscal quarter.

The seasonality of the Company's business also influences the Company's demand for seasonal borrowings. In fiscal years 2003 and 2002, the Company drew upon its credit facility in the third fiscal quarter and repaid the borrowings during the fourth fiscal quarter. During fiscal year 2003, the Company was drawn on its credit facility for an 83 day period from September through early December.

## ADVERTISING AND PROMOTION

The Company's marketing program in fiscal year 2003 was designed to build awareness of the Big Lots brand creating an awareness of the broad range of quality, brand-name merchandise available at closeout prices, which provide customers a unique shopping experience as well as value. The Company uses a variety of marketing approaches through television, print, and radio to promote its stores to the public. These approaches may vary by market and by the time of year. The Company promotes grand openings of its stores through a variety of promotions.

In the interest of expanding customer base and increasing the Company's overall level of 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 and 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 will launch a new series of nine 30-second national television advertising commercials scheduled to run from mid-March through December 2004, covering all stores in all markets, the same as fiscal year 2003. The new 30-second television commercials will continue to leverage the Company's single brand and increase consumer brand awareness. The Company expects results in new television markets to continue to outpace the balance of the stores, adding approximately one percent to the Company's comparable store sales, while generating selling and administrative expense leverage as television costs remain relatively flat to fiscal year 2003.

The marketing program also utilizes printed advertising circulars in all markets. In fiscal year 2003, the Company distributed approximately 46 million multi-page circulars per week for 11 weeks in the first half of the fiscal year, and 37 million multi-page circulars for 14 weeks in the last half of the fiscal year. A reduction in the number of circulars distributed in the last half of the fiscal year helped partially offset the additional costs of the national television advertising campaign. The method of distribution included a combination of newspaper insertions and direct mail. These circulars are created by the Company and are distributed regionally to take advantage of market differences caused by climate or other factors. The circulars generally feature 35 to 50 products that vary with each circular. In fiscal year 2004, the Company expects to distribute its circulars 25

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weeks of the year, the same as fiscal year 2003. In addition, store promotions including pre-recorded periodic loudspeaker announcements and in-store signage emphasize special bargains and significant values offered to the customer.

Over the past five fiscal years, total advertising expense as a percent of total net sales has ranged from 2.5% to 2.8%. In fiscal year 2003, including costs related to national television advertising, advertising expense as a percent of total net sales was 2.6%.

On May 16, 2001, the Company changed its name to Big Lots, Inc. and its ticker symbol to NYSE: BLI. The name change was approved at the Annual Meeting of Stockholders on May 15, 2001. In conjunction with the Company's initiative to change its name to Big Lots, Inc., and operate under one brand name, 434 stores were converted during fiscal years 2001 and 2002, including 380 stores previously operating under the names Odd Lots, Mac Frugal's, and Pic 'N' Save, and 54 existing Big Lots stores located in conversion markets were remodeled. As of the end of fiscal year 2002, all stores were operating under the Big Lots name. 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. The cost of the improvements for conversion and remodeled stores was between \$0.1 million and \$0.2 million per store during fiscal years 2001 through 2003. The Company believes that Big Lots is its most recognizable brand name, and this change offered numerous opportunities to increase brand awareness among customers, suppliers, investors, and the general public. The Company believes the conversion also allowed it to leverage television advertising and other expenses.

In August 2003, the Company finished the fiscal year 2003 remodel program by completing 211 stores. These remodels included similar improvements and resulted in similar costs, on a per store basis, as those made to the conversion stores described above and, in addition, included new fixtures and a new merchandise layout. Approximately 70% of the Company's stores have either been remodeled in the past two and one half years or are new stores opened in the past five years, and are consistent with current upgraded store standards.

In fiscal year 2004, the Company plans to remodel 68 stores in 12 markets. Additionally, the Company will add a closeout swing area to another 62 stores in the same 12 markets. 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 a few days before selling out or moving to their natural location in the store. The Company expects store remodeling costs, on a per store basis, in fiscal year 2004 to be similar to prior year costs.

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, which 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.

## **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 network to enable quick turn of time-sensitive product as well as to provide long-term warehousing capabilities for off-season buys. Substantially all of the merchandise sold by the Company is received and processed for retail sale, as necessary, and distributed to the retail locations from Company operated warehouse and distribution facilities.

The Company's furniture category has grown over the last 8 years to represent 12.1% of the Company's net sales in fiscal year 2003. In an effort to further expand this category's offering nationally, the Company expects to lease a furniture distribution facility on the West Coast in fiscal year 2004.

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Finally, construction of the Company's fifth distribution facility located in Durant, Oklahoma, was substantially completed in fiscal year 2003. The facility began receiving merchandise in January 2004 and is expected to ship merchandise to 120 stores beginning in April 2004. Data pertaining to warehouse and distribution facilities is described under Item 2. Properties, Warehouse and Distribution.

## **ASSOCIATES**

At January 31, 2004, the Company had 47,249 active associates comprised of 18,591 full-time, and 28,658 part-time associates. Temporary associates hired during the fall and winter holiday selling season increased the number of associates to a peak of 52,542 in fiscal year 2003. Approximately 60% of the associates employed throughout the year are employed on a part-time basis. The relationship with associates is considered to be good, and the Company is not a party to any labor agreements.

## **AVAILABLE INFORMATION**

The Company makes available, free of charge, through its Web site ([www.biglots.com](http://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 Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company files such material with, or furnishes it to, the Securities and Exchange Commission ("SEC").

In this Annual Report on Form 10-K, the Company incorporates by reference certain information from parts of its Proxy Statement for the 2004 Annual Meeting of Shareholders. The SEC allows the Company to disclose important information by referring to it in that manner. Please refer to such information.

On or about April 8, 2004, the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders will be set forth on the Company's Web site ([www.biglots.com](http://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, which is applicable to all of the Company's associates; the Company's Code of Ethics for Financial Professionals, which is applicable to its Chief Executive Officer, Chief Administrative Officer, and all other Senior Financial Officers (as that term is defined therein); Chief Executive Officer and Chief Financial Officer certifications; 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](http://www.biglots.com)) under the "Investor Relations - - Governance" caption. 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 predominantly in strip shopping centers throughout the United States. Approximately 98% of stores range in size from 10,000 to 50,000 gross square feet with an average store size of approximately 28,000 gross square feet, of which an average of 20,300 square feet is selling square feet. In selecting suitable new store locations, the Company generally seeks retail space between 25,000 and 35,000 square feet in size. The average cost to open a new store in a leased facility during fiscal year 2003 was approximately \$720,000, including inventory.

With the exception of 54 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, 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 years with multiple



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five-year renewal options. Approximately 60 stores have sales termination clauses at specified levels. The following tables set forth store growth, store location information, and store, office, and warehouse lease expirations, exclusive of month-to-month leases, at January 31, 2004.

#### STORE GROWTH

Fiscal Year	Beginning of Year	Opened	Closed	End of Year
1999 <sup>(1)</sup>	1128	124	22	1230
2000 <sup>(1)</sup>	1230	83	23	1290
2001	1290	78	33	1335
2002	1335	87	42	1380
2003	1380	86	36	1430

(1) Fiscal years 1999 and 2000 are exclusive of the KB Toys business which the Company divested pursuant to a Stock Purchase Agreement dated as of December 7, 2000.

#### STORE LOCATIONS

Alabama	35	Maine	3	Ohio	135
Arizona	29	Maryland	12	Oklahoma	20
Arkansas	11	Massachusetts	11	Oregon	11
California	188	Michigan	46	Pennsylvania	55
Colorado	20	Minnesota	8	South Carolina	28
Connecticut	6	Mississippi	14	Tennessee	47
Delaware	2	Missouri	27	Texas	106
Florida	107	Montana	2	Utah	11
Georgia	63	Nebraska	4	Virginia	43
Idaho	5	Nevada	9	Washington	17
Illinois	42	New Hampshire	6	West Virginia	24
Indiana	53	New Jersey	9	Wisconsin	18
Iowa	9	New Mexico	12	Wyoming	2
Kansas	11	New York	41		
Kentucky	43	North Carolina	57	<b>Total stores</b>	<b>1,430</b>
Louisiana	25	North Dakota	3	<b>Number of states</b>	<b>45</b>

## STORE, OFFICE, and WAREHOUSE LEASE EXPIRATIONS

Fiscal Year	
2004	168
2005	249
2006	270
2007	225
2008	229
Thereafter	295
Total	<u>1,436</u>

## WAREHOUSE AND DISTRIBUTION

At January 31, 2004, the Company operated warehouse and distribution locations strategically placed across the United States totaling 9,987,000 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.

Statistics for warehouse and distribution facilities are presented below:

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	271	1,694
Alabama	1	—	1	1,411	—	1,411
Oklahoma	1	—	1	1,297	—	1,297
Pennsylvania	1	—	1	1,295	—	1,295
Total	<u>6</u>	<u>3</u>	<u>9</u>	<u>8,985</u>	<u>1,002</u>	<u>9,987</u>

Construction of the Company's distribution facility located in Durant, Oklahoma, was substantially completed in fiscal year 2003. The selection of the Durant site was based on the Company's strategic plan for the existing store base and future growth. As necessary, the Company leases additional temporary warehouse space throughout the year to support its warehousing requirements.

## Item 3. Legal Proceedings

The Company and its subsidiaries are or may be subject to certain legal proceedings and claims that are incidental to their ordinary course of business. The Company will record a liability related to its legal proceedings and claims when it has determined that it is probable that the Company will be obligated to pay and the related amount can be reasonably estimated, and it will disclose the related facts in the footnotes to its financial statements, if material. If the Company determines that either an obligation is probable or reasonably possible, 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 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 be \$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 does not expect this settlement to have a material impact on its financial condition, results of continuing operations, or liquidity going forward.

The Company has 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 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 Acquisition Corporation and 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 recorded a \$3.7 million charge (net of tax) in the fourth quarter of fiscal 2003 related to the estimated impact of the KB bankruptcy comprised of a \$10.5 million benefit (net of tax) related to the partial charge-off of a \$45 million aggregate principal amount note and the write-off of the warrant issued in connection with the sale of the KB Toys business to KB, and a \$14.3 million (net of tax) charge related to KB store lease guarantee obligations (see KB Toys Matters and Litigation Charges in the Notes to the Consolidated Financial Statements for further discussion).

The Company is involved in other legal proceedings and claims arising in the ordinary course of business. The Company currently believes that such proceedings and claims, both individually and in the aggregate, will be resolved without a material impact on its financial condition, results of continuing operations, or liquidity. However, legal proceedings involve an element of uncertainty. Future developments could cause these proceedings or claims to have a material adverse effect of the Company’s financial condition, results of continuing 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, the employment-related matter described above, the lawsuit related to certain advertising practices of KB Toys, and the liabilities described above that relate to the KB bankruptcy, the Company has not recorded any additional liabilities.

#### **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 the fiscal year covered by this report.

**PART II****Item 5. Market for Registrant’s Common Equity and Related Shareholder Matters**

The Company’s common shares are listed on the New York Stock Exchange (NYSE) under the symbol “BLI”. The following table reflects the high and low sales price per share of common shares as quoted from the NYSE composite transactions for the fiscal period indicated.

	Fiscal Year			
	2003		2002	
	High	Low	High	Low
First Quarter	\$13.07	\$ 9.92	\$16.09	\$10.48
Second Quarter	16.24	11.52	19.90	13.75
Third Quarter	18.39	14.13	19.18	11.83
Fourth Quarter	15.25	12.89	17.24	11.89

As of March 26, 2004, there were 1,351 registered holders of record of the Company’s common shares.

The Company has followed a policy of reinvesting earnings in the business and consequently has not paid any cash dividends. At the present time, 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 in consideration of business conditions then existing, including the Company’s earnings, financial requirements and condition, opportunities for reinvesting earnings, and other factors.

## Equity Compensation Plan Information

The following table provides certain information pertaining to the Company's equity compensation plans at January 31, 2004:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under the equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	10,724,916(1)	\$14.73	2,076,531(2)
Equity compensation plans not approved by security holders	—	—	—
Total	<u>10,724,916</u>	<u>\$14.73</u>	<u>2,076,531</u>

(1) 10,724,916 shares are issuable upon exercise of outstanding options granted under each of the following plans:

Consolidated Stores Corporation Executive Stock Option and Stock Appreciation Rights Plan	705,646
Director Stock Option Plan	280,317
Big Lots, Inc. 1996 Performance Incentive Plan	9,738,953

(2) 2,076,531 shares available for issuance pursuant to stock option awards that could be granted in the future under each of the following plans:

Director Stock Option Plan	272,918
Big Lots, Inc. 1996 Performance Incentive Plan	1,803,613

**Item 6. Selected Financial Data**

The statements of operations and the balance sheet data have been derived from the Big Lots, Inc. (the “Company”) 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 elsewhere herein.

	Fiscal Years Ended (a)				
	January 31, 2004	February 1, 2003	February 2, 2002	February 3, 2001 (b)(c)	January 29, 2000 (c)
<b>(In thousands, except per share amounts and store counts)</b>					
Net sales	\$4,174,383	\$3,868,550	\$3,433,321	\$3,277,088	\$2,933,690
Cost of sales	2,428,024	2,236,633	2,092,183	1,891,345	1,668,623
Gross profit	1,746,359	1,631,917	1,341,138	1,385,743	1,265,067
Selling and administrative expenses	1,616,031	1,485,265	1,368,397	1,200,277	1,095,453
Operating profit (loss)	130,328	146,652	(27,259)	185,466	169,614
Interest expense	16,443	20,954	20,489	23,557	16,692
Interest income	(1,061)	(843)	(287)	(610)	(245)
Income (loss) from continuing operations before income taxes	114,946	126,541	(47,461)	162,519	153,167
Income tax expense (benefit)	24,051	49,984	(18,747)	64,195	60,501
Income (loss) from continuing operations	90,895	76,557	(28,714)	98,324	92,666
(Loss) income from discontinued operations	(9,720)	—	8,480	(478,976)	3,444
Net income (loss)	\$ 81,175	\$ 76,557	\$ (20,234)	\$ (380,652)	\$ 96,110
Income (loss) per common share - basic:					
Continuing operations	\$ .78	\$ .66	\$ (.25)	\$ .88	\$ .84
Discontinued operations	(.08)	—	.07	(4.30)	.03
	\$ .70	\$ .66	\$ (.18)	\$ (3.42)	\$ .87
Income (loss) per common share - diluted:					
Continuing operations	\$ .78	\$ .66	\$ (.25)	\$ .87	\$ .82
Discontinued operations	(.09)	—	.07	(4.26)	.03
	\$ .69	\$ .66	\$ (.18)	\$ (3.39)	\$ .85
Weighted-average common shares outstanding:					
Basic	116,757	115,865	113,660	111,432	110,360
Diluted	117,253	116,707	113,660	112,414	112,952
<b>Balance sheet data:</b>					
Total assets	\$1,784,688	\$1,641,761	\$1,460,793	\$1,526,966	\$1,862,028
Working capital	704,014	657,624	557,741	717,143	472,080
Long-term obligations	204,000	204,000	204,000	268,000	50,000
Shareholders’ equity	\$1,116,060	\$1,026,181	\$ 927,533	\$ 927,812	\$1,300,062
<b>Store data:</b>					
Total gross square footage	40,040	37,882	35,528	33,595	31,896
Total selling square footage	29,019	27,593	26,020	24,641	23,242
New stores opened	86	87	78	83	124
Stores closed	36	42	33	23	22
Stores open at end of year	1,430	1,380	1,335	1,290	1,230

(a) References throughout this document to fiscal years 2003, 2002, 2001, 2000, and 1999 refer to the fiscal years ended January 31, 2004, February 1, 2003, February 2, 2002, February 3, 2001, and January 29, 2000, respectively.

(b) The fiscal year ended February 3, 2001, is comprised of 53 weeks.

(c) 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 SECURITIES LITIGATION REFORM ACT OF 1995

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

This 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,” “will,” 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 are subject to a number of factors, any one, or a combination of, which could materially affect the Company’s business, financial condition, or results of operations. These factors may include, but are not limited to:

- the Company’s ability to source and purchase merchandise on favorable terms;
- 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 non-compliance);
- 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 more than 380 KB Toys store leases and other real property, 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 liabilities arising out of the KB Toys bankruptcy;
- litigation risks and changes in laws and regulations, including changes in 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;
- interruptions in suppliers’ businesses;
- the Company’s ability to achieve cost efficiencies and other benefits from various operational initiatives and

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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 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 Securities and Exchange Commission, 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, or results of operations. 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, and results of operations. 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 filings made with the Securities and Exchange Commission.

## **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 31, 2004, the Company operated a total of 1,430 stores, 1,385 stores under the name Big Lots and 45 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](http://www.biglots.com). Wholesale operations are conducted through Big Lots Wholesale, Consolidated International, Wisconsin Toy, and with online purchasing at [www.biglotswholesale.com](http://www.biglotswholesale.com). The contents of the Company's Web sites are not part of this report.



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The following table compares components of the Consolidated Statements of Operations of the Company as a percentage of net sales. Results for fiscal years 2003 and 2001 include the impact of a net charge of \$4.9 million (net of tax) and a \$50.4 million (net of tax) charge, respectively (see KB Toys Matters and Litigation Charges for fiscal year 2003, and 2001 Charge for fiscal year 2001 in the Notes to the Consolidated Financial Statements).

	Fiscal Year		
	2003	2002	2001
Net sales	100.0%	100.0%	100.0%
Gross profit	41.8	42.2	39.1
Selling and administrative expenses	38.7	38.4	39.9
Operating profit (loss)	3.1	3.8	(.8)
Interest expense	.4	.5	.6
Interest income	(.0)	(.0)	(.0)
Income (loss) from continuing operations before income taxes	2.8	3.3	(1.4)
Income tax expense (benefit)	.6	1.3	(.6)
Income (loss) from continuing operations	2.2	2.0	(.8)
(Loss) income from discontinued operations	(.2)	—	.2
Net income (loss)	1.9%	2.0%	(.6)%

The Company has historically experienced, and expects to continue to experience, seasonal fluctuations, with a significant 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 store remodels, television and circular advertising, and the timing of certain holidays. Furthermore, in anticipation of increased sales activity during the fourth fiscal quarter, the Company purchases substantial amounts of inventory during the third fiscal quarter and hires a significant number of temporary employees to increase store staffing during the fourth fiscal quarter.

### Store Remodels and Conversions

In conjunction with the Company's initiative to change its name to Big Lots, Inc., and operate under one brand name, 434 stores were converted during fiscal years 2001 and 2002, including 380 stores previously operating under the names Odd Lots, Mac Frugal'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.

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. The cost of the improvements for conversion and remodeled stores was between \$0.1 million and \$0.2 million per store during fiscal years 2001 through 2003. The Company believes that Big Lots is its most recognizable brand name, and this change offered numerous opportunities to increase brand awareness among customers, suppliers, investors, and the general public. The Company believes the conversion also allowed it to leverage television advertising and other expenses.

In August 2003, the Company finished the fiscal year 2003 remodel program by completing 211 stores. These remodels included similar improvements as those made to the conversion stores described above and, in addition, included new fixtures and a new merchandise layout. Approximately 70% of the Company's stores have either been remodeled in the past two and one half years or are new stores opened in the past five years, and are consistent with current upgraded store standards.

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In fiscal year 2004, the Company plans to remodel 68 stores in 12 markets. Additionally, the Company will add a closeout swing area to another 62 stores in the same 12 markets. 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 a few days before selling out or moving to their natural location in the store. The Company expects store remodeling costs, on a per store basis, in fiscal year 2004 to be similar to prior year costs.

### **Furniture and Distribution Facility Growth**

The Company's furniture category has grown over the last 8 years to represent 12.1% of the Company's net sales in fiscal year 2003. In an effort to further expand this category's offering nationally, the Company expects to lease a furniture distribution facility on the West Coast in fiscal year 2004.

During fiscal year 2004, the Company expects to add a net of 219 furniture departments, ending the fiscal year with furniture departments in 74% of the closeout stores, up from 61% at the close of fiscal year 2003. Additionally, the Company expects to expand existing furniture departments in approximately 147 stores where hanging apparel will be removed. Currently, approximately 416 stores have hanging apparel departments, and the Company will be exiting this category in the second and third quarters of fiscal year 2004.

Finally, construction of the Company's fifth distribution facility located in Durant, Oklahoma, was substantially completed in fiscal year 2003. The facility began receiving merchandise in January 2004 and is expected to ship merchandise to 120 stores beginning in April 2004.

### **Other Matters**

On August 22, 2001, the Company announced that its Board of Directors had unanimously voted to redeem the preferred stock rights issued under the Company's Rights Agreement. The redemption was a direct result of the Company's redomestication into Ohio, as approved by its shareholders at the Company's 2001 Annual Meeting of Shareholders. At the 2000 Annual Meeting of Shareholders, a non-binding shareholder proposal passed seeking the termination of the Company's Rights Agreement. The Board of Directors believed that the statutory protections offered by the Company's new state of incorporation provided adequate safeguards to permit the Board of Directors and the Company's shareholders to fully and fairly evaluate any takeover offer, whether coercive or not. Accordingly, the Board of Directors found it to be in the best interest of the Company and its shareholders to redeem the preferred stock rights issued under the Company's Rights Agreement.

### **KB TOYS MATTERS AND LITIGATION CHARGES**

On January 14, 2004, KB Acquisition Corporation and 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 has 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 ("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; 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, 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 will record a liability. As discussed below, the Company recorded a \$3.7 million charge (net of tax) in the fourth quarter of fiscal year 2003 related to the estimated impact of the KB bankruptcy comprised of a \$10.5 million benefit (net of tax) related to the partial charge-off of the HCC Note (defined below) and KB warrant and a \$14.3 million (net of tax) charge related to KB store lease guarantee obligations.

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In connection with the sale of the KB Toys business, the Company received \$258 million in cash and a 10-year note from HCC in the aggregate principal amount of \$45 million. This note bears interest, on an in-kind basis, at the rate of 8% 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. 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 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 million. For tax purposes, the HCC Note was originally recorded at its face value of \$45 million, and the Company incurred tax liability on the interest, which 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 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 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 2003. A substantial portion of this tax benefit reflects the charge-off of the higher tax basis of the HCC Note (see the Income Taxes Note to the Consolidated Financial Statements for further discussion).

When the Company acquired the KB Toys business from Melville Corporation (now known as CVS New York, Inc., and together with its subsidiaries “CVS”) in May 1996, the Company provided, among other things, an indemnity to CVS with respect to any losses resulting from KB’s failure to pay all monies due and owing under any KB lease or mortgage obligation guaranteed by CVS. While the Company controlled the KB Toys business, the Company provided guarantees with respect to a limited number of additional store leases. As part of the KB sale, and in accordance with the terms of the KB Stock Purchase Agreement, KB similarly indemnified 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 had guarantee or indemnification obligations, as of January 31, 2004, with respect to: a) approximately 384 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”), owned by Kay-Bee Toy & Hobby Shops, Inc., an affiliate of KB Acquisition Corporation and a party to the bankruptcy proceedings.

In connection with the bankruptcy, KB is required to continue to make lease payments with respect to all leases except those 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, the validity of the applicable guarantee and the like. 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 store leases affected by KB’s rejections.

The Company engaged an independent real estate valuation firm to assist it in the analysis of the Company’s potential liability with respect to the 90 guaranteed store leases. Based upon analysis of the information currently available, the Company recorded a charge to discontinued operations in the fourth quarter of fiscal year 2003 in the amount of \$14.3 million (net of a \$9.7 million tax benefit) to reflect its best estimate of this loss contingency. The Company intends to take an active role in limiting its potential liability with respect to KB store lease obligations. The Company is not aware of any additional rejections of the remaining 294 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. Nevertheless, 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. If 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.

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 "DC Note"). The Company was informed that, as of January 14, 2004, the DC Note had an outstanding principal amount of approximately \$6.3 million plus accrued interest of approximately \$21,000. Additionally, the mortgage holder has claimed that a make-whole premium of approximately \$1.5 million is also due and payable. The Company is reviewing its rights and obligations regarding the premium. The Company engaged an independent real estate valuation firm to assist it in the analysis of the Company's potential liability with respect to the DC Note. Based upon analysis of the information currently available, the Company believes that the fair market value of the Pittsfield DC is between \$6.2 million and \$6.8 million. The Company intends to take an active role in limiting its potential liability with respect to the DC Note. In the event the Company incurs a liability related to the Pittsfield DC, 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. The Company continues to assess the effect of the KB bankruptcy on such mutual indemnification obligations. However, because the KB bankruptcy is in its early stages, the Company has not made any provision for loss contingencies with respect to any non-lease 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.

In another KB matter unrelated to the bankruptcy proceedings mentioned above, 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 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.

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 (see the Income Taxes Note to the Consolidated Financial Statements 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 Mac Frugal's Bargains Close-outs, Inc. appeal (see the Income Taxes Note to the Consolidated Financial Statements 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.

For fiscal year 2003, the Company has recorded, related to KB Toys matters described above, charges to discontinued operations of \$9.7 million (net of tax), or \$0.09 per diluted share, and a benefit to continuing operations of \$10.5 million (net of tax), or \$0.09 per diluted share. The KB Toys charges recorded to discontinued operations represented: a) a \$14.3 million (net of tax) charge related to KB store lease guarantee obligations; b) a \$5.8 million (net of tax) benefit related to the resolution and closure of KB state and local tax matters; and c) a \$1.2 million (net of tax) charge related to certain advertising practices of KB Toys. In another KB matter, the Company recorded to continuing operations a \$10.5

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million (net of tax) benefit related to the partial charge-off of the HCC Note and the write-off of the KB warrant. Including the charge of \$5.7 million (net of tax) for the Company's two California class action lawsuits recorded to continuing operations, KB Toys matters and litigation charges totaled \$4.9 million (net of tax).

The Company has, as part of the KB Stock Purchase Agreement, retained the responsibility for certain KB insurance claims incurred through the date of closing of the sale on December 7, 2000. During fiscal year 2001, the Company determined that the estimate for the related insurance reserves exceeded the expected liability. Accordingly, a portion of the insurance reserves established in connection with the sale of the KB Toys business were adjusted and recorded as income from discontinued operations on the Company's Statements of Operations. This adjustment resulted in \$8.5 million (net of tax) of income from discontinued operations in fiscal year 2001.

The following are the components of discontinued operations:

	Fiscal Year		
	2003	2002	2001
(In thousands)			
(Loss) income on disposal of KB Toys business, net of income tax			
(benefit) expense of \$(14,691), \$(4,000), and \$5,423 in 2003, 2002, and 2001, respectively.	<u>\$(9,720)</u>	<u>\$ —</u>	<u>\$8,480</u>

The Company also announced on August 20, 2003, that it reached a preliminary agreement to settle the Company's two California class action lawsuits relating to the calculation of earned overtime wages for certain former and current store managers and assistant store managers in that state. Final court approval of the proposed settlement was received 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 recorded during the second quarter of fiscal year 2003. The Company does not expect this settlement to have a material impact on its financial condition, results of continuing operations, or liquidity going forward.

### 2001 CHARGE

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

### FISCAL YEAR 2003 COMPARED TO FISCAL YEAR 2002

#### Net Sales

Net sales for the fiscal year ended January 31, 2004, 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 new stores that opened on or after February 4, 2001, offset by store closings. 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%.

Comparable store sales are calculated using all stores that have been open for at least two fiscal years as of the beginning of fiscal year 2003.

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 may have resulted from several factors such as the launch of the Company's first national television

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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 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 Company believes that future sales growth is dependent upon the increased number of customer transactions as well as increases in the dollar value of the average basket. The following table summarizes comparable store sales increases as well as growth in customer transactions and the value of the average basket:

	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%

### 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 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 \$130.7 million, or 8.8%, in fiscal year 2003 to \$1,616.0 million from \$1,485.3 million in fiscal year 2002. As a percentage of net sales, selling and administrative expenses increased 30 basis points to 38.7% in fiscal year 2003 from 38.4% 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 the California wage and hour class action lawsuits (see KB Toys Matters and Litigation Charges in the Notes to the Consolidated Financial Statements). Excluding these items, the selling and administrative 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 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 \$130.7 million increase was primarily attributable to increased store payroll costs of \$50.0 million, increased distribution and transportation costs of \$22.6 million, increased store occupancy related costs including rent and utilities of \$22.2 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 the California wage and hour class action lawsuits.

Distribution and transportation costs, which are included in selling and administrative expenses (see Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements), increased slightly by 15 basis points when compared to fiscal year 2002.

## **Interest Expense**

Interest expense, including the amortization of obligation 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 compared 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 new distribution facility in Durant, Oklahoma. Interest expense for fiscal years 2003 and 2002 was primarily related to the \$204.0 million senior notes with maturities ranging from four to six years privately placed by the Company pursuant to the Note Purchase Agreement dated May 8, 2001, ("Senior Notes") as well as the amortization of obligation issuance costs (see Long-term Obligations in the Notes to the Consolidated Financial Statements).

## **Interest Income**

Interest income increased slightly to \$1.1 million in fiscal year 2003 compared to \$0.8 million for fiscal year 2002. Interest income was generated by interest earned on cash equivalents and short-term investments. Cash equivalents at January 31, 2004, and February 1, 2003, were \$170.3 million and \$143.8 million, respectively.

## **Income Taxes**

The effective income tax rate of the continuing operations of the Company was 20.9% for fiscal year 2003 compared to 39.5% for fiscal year 2002. The rate decrease was primarily related to the reversal of a \$15.0 million deferred tax asset valuation allowance related to 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. The Company anticipates the fiscal year 2004 effective income tax rate to fall within a range of 38.8% to 39.5%.

## **Discontinued Operations**

See KB Toys Matters and Litigation Charges in the Notes to the Consolidated Financial Statements.

## **FISCAL YEAR 2002 COMPARED TO FISCAL YEAR 2001**

### **Net Sales**

Net sales increased to \$3,868.6 million for fiscal year 2002 from \$3,433.3 million for fiscal year 2001, an increase of \$435.3 million, or 12.7%. This increase resulted primarily from a comparable store sales increase of 7.7%, with the remaining increase driven primarily by sales from new stores that opened on or after January 30, 2000, offset by store closings. The Company attributes its comparable store sales increase of 7.7% to an increase in the dollar value of the average basket of 4.9% and an increase in the number of customer transactions of 2.8%.

Comparable store sales are calculated using all stores that have been open for at least two fiscal years as of the beginning of fiscal year 2002.

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 2002 may have resulted from several factors such as more reliable in-stock levels of consumables products, more productive advertising circulars, increased television advertising spending, the opening of 434 conversion stores during fiscal years 2002 and 2001, and the introduction of furniture departments in 128 stores over the prior year.

In terms of product categories, sales growth in fiscal year 2002 was broad-based with positive comparable store sales increases across most major categories driven by gains in domestics, furniture, hardlines, consumables, toys, and home décor, offset by a decline in seasonal merchandise.

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The following table summarizes comparable store sales increases as well as growth in customer transactions and the value of the average basket:

	Fiscal Year	
	2002	2001
Comparable store sales	7.7%	2.0%
Customer transactions	2.8%	.3%
Value of the average basket	4.9%	1.7%

### **Gross Profit**

Gross profit increased \$290.8 million, or 21.7%, in fiscal year 2002 to \$1,631.9 million from \$1,341.1 million in fiscal year 2001. Gross profit as a percentage of net sales was 42.2% in fiscal year 2002 compared to 39.1% in the previous year. Of the 310 basis point improvement in the gross profit percentage, 180 basis points were due to prior year's results having been impacted by a charge of \$37.8 million (net of tax) (\$62.4 million before tax) (see 2001 Charge in the Notes to the Consolidated Financial Statements for more information). The remaining 130 basis points of increase in the gross profit percentage was primarily due to improvements in initial markup due to opportunistic buying conditions across most merchandise categories, partially offset by promotional markdowns taken to clear seasonal inventory such as Christmas decorative merchandise.

### **Selling and Administrative Expenses**

Selling and administrative expenses increased \$116.9 million in fiscal year 2002 to \$1,485.3 million from \$1,368.4 million in fiscal year 2001. As a percentage of net sales, selling and administrative expenses decreased to 38.4% in fiscal year 2002 from 39.9% in fiscal year 2001. Of the 150 basis point improvement in the selling and administrative expense rate, 110 basis points were due to prior year's results having been impacted by a \$21.1 million (net of tax) (\$34.9 million before tax) charge resulting from a change in estimate relating to insurance reserves. The remaining 40 basis points of rate improvement in fiscal year 2002 was primarily due to improving productivity in distribution, transportation, and store payroll, partially offset by the negative impact of increased health insurance costs, as well as accelerating comparable sales on an expense base of which a large portion is fixed.

Selling and administrative expenses increased over fiscal year 2001 primarily due to an increase in the number of stores, costs associated with higher levels of sales, and investment in store remodels. The \$116.9 million increase was primarily attributable to an increase in store payroll of \$40.8 million, increased store occupancy related costs such as rent and utilities of \$24.8 million, increased incentive compensation of \$17.3 million due to improved operating results, and an increase of \$17.2 million in insurance expense primarily driven by health costs related to increased associate participation and medical inflation.

Distribution and transportation costs, which are included in selling and administrative expenses (see Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements), decreased as a percentage of sales 60 basis points when compared to fiscal year 2001. The reduction in distribution and transportation costs as a percentage of sales was primarily due to productivity improvements and the leveraging of costs over a higher sales base.

### **Interest Expense**

Interest expense, including the amortization of obligation issuance costs, was \$21.0 million for fiscal year 2002 compared to \$20.5 million for fiscal year 2001. As a percentage of net sales, interest expense for fiscal year 2002 declined slightly compared to fiscal year 2001.

The fiscal year 2002 interest primarily relates to the Company's Senior Notes and the amortization of obligation issuance costs. The decrease in interest expense over fiscal year 2001 was primarily due to lower average borrowings under the Company's senior revolving Credit Agreement dated May 8, 2001 ("Revolving Credit Agreement"). This decrease was partially offset by fiscal year 2001 expense being favorably impacted in the first and second quarters by the capitalization of \$2.4 million of interest related to the Tremont, Pennsylvania, distribution facility. Additionally, the Senior Notes, which carry a higher interest rate than the variable-priced Revolving Credit Agreement, were not in place until the second quarter of fiscal year 2001.



## **Interest Income**

Interest income increased to \$0.8 million in fiscal year 2002 compared to \$0.3 million for fiscal year 2001. Interest income was generated by interest earned on cash equivalents and short-term investments. Cash equivalents at February 1, 2003, and February 2, 2002, were \$143.8 million and \$17.5 million, respectively.

## **Income Taxes**

The effective income tax rate of the Company was 39.5% in fiscal years 2002 and 2001.

## **Discontinued Operations**

See KB Toys Matters and Litigation Charges in the Notes to the Consolidated Financial Statements.

## **CAPITAL RESOURCES AND LIQUIDITY**

### **Revolving Credit Agreement**

On May 8, 2001, the Company entered into the Revolving Credit Agreement with a group of financial institutions, which consisted of a \$358.75 million three-year revolving credit facility and a \$153.75 million 364-day facility, renewable annually. The Revolving Credit Agreement replaced the Company's prior senior unsecured revolving credit facility ("Prior Revolver") which, at the time of its replacement, consisted of a \$500.0 million revolving credit facility that was due to expire on May 6, 2002. The average interest rate under the Revolving Credit Agreement during fiscal years 2003 and 2002 was 2.4% and 3.0%, respectively.

The Revolving Credit Agreement contains customary affirmative and negative covenants, including financial covenants requiring the Company to maintain specified fixed charge coverage and leverage ratios as well as a minimum level of net worth. The Company was in compliance with its financial covenants at January 31, 2004.

On October 30, 2001, the financial covenants of the Revolving Credit Agreement were amended to provide the Company with increased operating flexibility. On February 25, 2002, the Revolving Credit Agreement was amended to exclude the fiscal year 2001 charge (see 2001 Charge in the Notes to the Consolidated Financial Statements) from the fixed charge coverage and leverage ratio financial covenant calculations. As part of the February 25, 2002, amendments, the Company provided collateral, consisting principally of its inventories, as security for the Revolving Credit Agreement, and agreed to certain changes in other terms.

The February 25, 2002, amendment to the Revolving Credit Agreement imposed certain limitations on the extent to which the Company may borrow under the Revolving Credit Agreement. The Company's borrowing base fluctuates at least quarterly based on the value of the Company's inventory, as determined in accordance with the Revolving Credit Agreement. On April 30, 2002, the Revolving Credit Agreement was further amended to increase the applicable borrowing base factor. At January 31, 2004, the Company's borrowing base was \$280.5 million.

On May 8, 2002, the Company's 364-day facility expired. This facility had not been used during the prior year and, accordingly, was not renewed. On July 31, 2003, the Revolving Credit Agreement was further amended to extend the maturity one year to May 2005, and to reduce the size of the facility from \$358.75 million to \$300.0 million to better match the facility size with the liquidity needs of the Company and minimize facility fees. The Company believes that the \$300.0 million revolving credit facility, combined with cash provided by operations and existing cash balances, provide sufficient liquidity to meet its operating and seasonal borrowing needs.

## Senior Notes

The Senior Notes have maturities ranging from four to six years. Principal maturities of the Senior Notes are as follows:

(In thousands)	
2004	\$ —
2005	174,000
2006	15,000
2007	15,000
Long-term obligations	<u>\$204,000</u>

The Senior Notes currently carry a weighted-average yield of 8.21% and rank pari passu with the Company's Revolving Credit Agreement. Proceeds from the issue were used to pay down the Prior Revolver.

The Note Purchase Agreement and Senior Notes contain customary affirmative and negative covenants including financial covenants requiring the Company to maintain specified fixed charge coverage and leverage ratios as well as a minimum level of net worth. The Company was in compliance with its financial covenants at January 31, 2004.

On February 25, 2002, the Note Purchase Agreement was amended to exclude the fiscal year 2001 charge (see 2001 Charge in the Notes to the Consolidated Financial Statements) from the fixed charge coverage and leverage ratio financial covenant calculations. As part of the February 25, 2002, amendment, the Company provided collateral, consisting principally of its inventories, as security for the Senior Notes, and agreed to certain changes in other terms.

## Liquidity

The primary sources of liquidity for the Company have been cash flows from operations, proceeds from the Senior Notes, and as necessary, borrowings under the Revolving Credit Agreement. Working capital was \$704.0 million, and the Company had no direct borrowings under the Revolving Credit Agreement at January 31, 2004. The Company's borrowing base at January 31, 2004, was \$280.5 million. The borrowing base was reduced by outstanding letters of credit totaling \$44.8 million. As a result, \$235.7 million was available under the Revolving Credit Agreement at January 31, 2004. The Company had invested funds of \$170.3 million at January 31, 2004.

During fiscal year 2003, the Company had average borrowings under the Revolving Credit Agreement of \$10.8 million and peak borrowings of \$76.8 million. Additionally, the Company had average letters of credit outstanding of \$35.7 million during fiscal year 2003. The amortization of obligation issuance costs is included in interest expense in the statements of operations.

Cash flows from operating activities were \$184.9 million during fiscal year 2003 and resulted primarily from net income adjusted for depreciation and amortization totaling \$172.8 million. An increase in inventories of \$53.4 million over fiscal year 2002 was primarily due to increased receipts of furniture merchandise substantially offset by an increase in accounts payable of \$42.1 million.

Capital expenditures were \$163.7 million in fiscal year 2003, \$102.7 million in fiscal year 2002, and \$107.6 million in fiscal year 2001. Capital expenditures in fiscal year 2003 were primarily driven by the construction of the distribution facility in Durant, Oklahoma, 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 distribution facility in Durant, Oklahoma. Capital expenditures in fiscal year 2001 were primarily driven by new store openings; additional distribution facility capacity in Montgomery, Alabama, and Tremont, Pennsylvania; investments in store conversions and remodels; and the upgrade of the warehouse management system in the Columbus, Ohio, distribution facility. Capital expenditure requirements in 2004 are anticipated to be approximately \$115 to \$120 million, and will consist primarily of investments in approximately 90 new stores, store expansions, the reengineering of the Columbus, Ohio, distribution facility, and the remodeling of 68 existing stores.

## Contractual Obligations

The following table summarizes payments due under the Company's contractual obligations at January 31, 2004:

	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)	\$ —	\$189,000	\$ 15,000	\$ —	\$ 204,000
Capital lease obligations	—	—	—	—	—
Operating lease obligations (3) (4)	260,033	422,062	253,985	180,742	1,116,822
Purchase obligations (4) (5)	721,726	235,724	105,851	145,916	1,209,217
Other long-term liabilities	—	—	—	—	—
Total contractual obligations (6)	\$981,759	\$846,786	\$374,836	\$326,658	\$2,530,039

(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 are limited to the Senior Notes. The table assumes that the Senior Notes are paid at maturity (see Long-term Obligations in the Notes to the Consolidated Financial Statements for more information).

(3) Operating lease obligations include, among other items, leases for the Company's retail stores, warehouse space, and offices. Many of the store lease obligations require the Company to pay for common area maintenance, real estate taxes, and insurance. The Company has made certain assumptions and estimates in order to account for its contractual obligations relative to common area maintenance, real estate taxes, and property insurance. The Company estimates that future obligations for common area maintenance, real estate taxes, and property insurance are \$57.6 million at January 31, 2004. 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 (see Leases in the Notes to the Consolidated Financial Statements for more information).

(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, e.g. 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 \$463.7 million, the entirety of which represents obligations due within one year of

January 31, 2004. Purchase obligations also include a commitment for future inventory purchases totaling \$359.8 million at January 31, 2004. 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 \$385.7 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 (see KB Toys Matters and Litigation Charges in the Notes to the Consolidated Financial Statements for more information).

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment.

The Company's accounting policies and other disclosures required by accounting principles generally accepted in the United States of America are also described in the Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements. 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 accounting principles generally accepted in the United States of America, 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. When a decision is made to permanently mark down merchandise or a promotional markdown decision is made, the resulting gross profit reduction is recognized in the period the markdown is recorded.

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 would materially reduce its cost of sales.

**Property and equipment.** Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. Service lives are principally forty years for buildings and from three to fifteen years for other property and equipment.

**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 taking into account known conditions and planned future activities. The Company's assumptions regarding the fair value of its long-lived assets are based on the discounted future cash flows.

**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 in order 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 records income tax loss contingencies for estimates of the outcome or settlement of various asserted and unasserted income tax contingencies including tax audits and administrative appeals. At any one point in time, many tax years may be in various stages of audit or appeals or could be subject to audit by various taxing jurisdictions. This requires a periodic identification and evaluation of significant doubtful or controversial issues both individually and collectively. The results of the audits, appeals, or expiration of the statute of limitations are reflected in the income tax contingency calculations accordingly.

The Company has generated deferred tax assets 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 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), the jurisdictional mix and magnitude of income (loss), 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 liability or asset for enacted changes in tax laws or rates.

**Pension liabilities.** Pension and other retirement benefits, including all relevant assumptions required by accounting principles generally accepted in the United States of America, 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 2003 was 6.8%. 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 \$0.5 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 9.0% long-term rate of return on assets for fiscal year 2003. A 1.0% increase in the expected long-term rate of return would decrease the net periodic pension cost by \$0.3 million. A 1.0% decrease in the expected long-term rate of return would increase the net periodic pension cost by \$0.3 million. The Company has reduced the expected long-term rate of return on assets to 8.5% for fiscal year 2004.

**Legal obligations.** In the normal course of business, the Company must make continuing estimates of potential future legal obligations and liabilities, which require the use of management's judgment on the outcome of various issues. Management may also use outside legal advice 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 that are used by management are based on the requirements of Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies." The Company will record a liability related to legal obligations when it has determined that it is probable that the Company will be obligated to pay and the related amount can be reasonably estimated, and it will disclose the related facts in the footnotes to its financial statements, if material. If the Company determines that either an obligation is probable or reasonably possible, 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 outside legal advisors.

**Cost of sales.** Cost of sales includes the cost of merchandise (including related inbound freight), markdowns, and inventory shrinkage, net of cash discounts and rebates. The Company classifies purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and other distribution network 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 costs related to their distribution network in cost of sales.

**Selling and administrative expenses.** The Company includes store expenses (such as payroll and occupancy costs), distribution and transportation costs, advertising, buying, depreciation, insurance, and overhead costs in selling and administrative expenses.

**Discontinued operations.** At January 31, 2004, the reserve for discontinued operations includes management's best estimate of the Company's potential liability under its guarantee of 90 store leases which have been rejected by KB as part of its bankruptcy proceeding. Management has utilized an independent real estate valuation firm to assist in developing this estimate. Management will periodically update its estimate as information about the potential liability becomes available. If KB rejects additional leases as its bankruptcy proceeds, management will estimate the additional potential liability and record any charge as discontinued operations.

In addition, the KB Stock Purchase Agreement contains mutual indemnifications of KB by the Company and of the Company by KB. Management's best estimate of any potential liability resulting from such mutual indemnification obligations are recorded as discontinued operations at January 31, 2004. Management will periodically update its estimate as information about any potential liability becomes available.

## RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements are discussed in the Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements.

## COMMITMENTS

Commitments are discussed in the Long-term Obligations, the Commitments and Contingencies, and the Leases Notes to the Consolidated Financial Statements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The Company is subject to market risk from exposure to changes in interest rates based on its financing, investing, and cash management activities. The Company does not expect changes in interest rates in fiscal year 2004 to have a material effect on income or cash flows; 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 capital resources, financial position, results of operations, or cash flows.

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 related to the expansion of existing businesses, 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 position, results of operations, or cash flows.

**Item 8. Financial Statements and Supplementary Data**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of Big Lots, Inc.:

We have audited the accompanying consolidated balance sheets of Big Lots, Inc. and subsidiaries as of January 31, 2004 and February 1, 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three fiscal years in the period ended January 31, 2004. 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 consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated 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 consolidated financial position of Big Lots, Inc. and subsidiaries at January 31, 2004 and February 1, 2003, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 31, 2004, 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.

Deloitte & Touche LLP  
Dayton, Ohio  
March 19, 2004



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

	Fiscal Year		
	2003	2002	2001
Net sales	\$4,174,383	\$3,868,550	\$3,433,321
Cost of sales	2,428,024	2,236,633	2,092,183
Gross profit	1,746,359	1,631,917	1,341,138
Selling and administrative expenses	1,616,031	1,485,265	1,368,397
Operating profit (loss)	130,328	146,652	(27,259)
Interest expense	16,443	20,954	20,489
Interest income	(1,061)	(843)	(287)
Income (loss) from continuing operations before income taxes	114,946	126,541	(47,461)
Income tax expense (benefit)	24,051	49,984	(18,747)
Income (loss) from continuing operations	90,895	76,557	(28,714)
(Loss) income from discontinued operations	(9,720)	—	8,480
Net income (loss)	\$ 81,175	\$ 76,557	\$ (20,234)
Income (loss) per common share - basic:			
Continuing operations	\$ .78	\$ .66	\$ (.25)
Discontinued operations	(.08)	—	.07
	\$ .70	\$ .66	\$ (.18)
Income (loss) per common share - diluted:			
Continuing operations	\$ .78	\$ .66	\$ (.25)
Discontinued operations	(.09)	—	.07
	\$ .69	\$ .66	\$ (.18)

*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 31, 2004	February 1, 2003
<b>ASSETS</b>		
Current assets:		
Cash	\$ 20,928	\$ 23,193
Cash equivalents	170,300	143,815
Inventories	829,569	776,210
Deferred income taxes	82,406	61,221
Other current assets	64,397	63,582
Total current assets	1,167,600	1,068,021
Property and equipment - net	605,527	532,900
Deferred income taxes	422	17,766
Other assets	11,139	23,074
Total assets	<u>\$1,784,688</u>	<u>\$1,641,761</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 161,884	\$ 119,813
Accrued liabilities	301,702	290,584
Total current liabilities	463,586	410,397
Long-term obligations	204,000	204,000
Other liabilities	1,042	1,183
Commitments and contingencies		
Shareholders' equity:		
Common shares - authorized 290,000 shares, \$.01 par value; issued 116,927 shares and 116,165 shares, respectively	1,169	1,162
Additional paid-in capital	466,740	458,043
Retained earnings	648,151	566,976
Total shareholders' equity	1,116,060	1,026,181
Total liabilities and shareholders' equity	<u>\$1,784,688</u>	<u>\$1,641,761</u>

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

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

	Common Shares Issued		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
Balance - February 3, 2001	112,079	\$1,121	\$416,038	\$510,653	\$ 927,812
Net loss	—	—	—	(20,234)	(20,234)
Exercise of stock options	1,799	18	15,551	—	15,569
Employee benefits paid with common shares	520	5	5,519	—	5,524
Redemption of preferred stock rights	—	—	(1,138)	—	(1,138)
Balance - February 2, 2002	114,398	1,144	435,970	490,419	927,533
Net income	—	—	—	76,557	76,557
Exercise of stock options	1,323	13	17,436	—	17,449
Employee benefits paid with common shares	444	5	4,637	—	4,642
Balance - February 1, 2003	116,165	1,162	458,043	566,976	1,026,181
Net income	—	—	—	81,175	81,175
Exercise of stock options	327	3	4,136	—	4,139
Employee benefits paid with common shares	435	4	4,561	—	4,565
Balance - January 31, 2004	<u>116,927</u>	<u>\$1,169</u>	<u>\$466,740</u>	<u>\$648,151</u>	<u>\$1,116,060</u>

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

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

	Fiscal Year		
	2003	2002	2001
Operating activities:			
Net income (loss)	\$ 81,175	\$ 76,557	\$ (20,234)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Loss (income) from discontinued operations	9,720	—	(8,480)
Depreciation and amortization	91,634	85,327	70,137
Deferred income taxes	(3,841)	50,021	(20,209)
Loss on sale of equipment	2,471	1,056	3,103
Employee benefits paid with common shares	4,565	4,642	5,525
Partial charge-off of HCC Note and write-off of KB warrant	9,598	—	—
Other	293	1,093	3,149
Change in assets and liabilities, excluding the effect of discontinued operations	(10,705)	4,625	124,098
Net cash provided by operating activities	184,910	223,321	157,089
Investing activities:			
Capital expenditures	(163,718)	(102,694)	(107,561)
Cash proceeds from sale of equipment	108	2,271	6,186
Other	(324)	3,667	(63)
Net cash used in investing activities	(163,934)	(96,756)	(101,438)
Financing activities:			
Payment of long-term obligations	(305,000)	(448,800)	(2,149,800)
Proceeds from long-term obligations	305,000	448,800	2,087,319
Redemption of preferred stock rights	—	—	(1,138)
Proceeds from exercise of stock options	3,704	16,087	12,353
Bank and bond fees	(460)	(4,466)	(6,224)
Net cash provided by (used in) financing activities	3,244	11,621	(57,490)
Increase (decrease) in cash and cash equivalents	24,220	138,186	(1,839)
Cash and cash equivalents:			
Beginning of year	167,008	28,822	30,661
End of year	\$ 191,228	\$ 167,008	\$ 28,822

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Description of Business

Big Lots, Inc. (the “Company”) is the nation’s largest broadline closeout retailer. At January 31, 2004, the Company operated a total of 1,430 stores, 1,385 stores under the name Big Lots, and 45 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](http://www.biglots.com). Wholesale operations are conducted through Big Lots Wholesale, Consolidated International, Wisconsin Toy, and with online purchasing at [www.biglotswholesale.com](http://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 2003, 2002, and 2001 were comprised of 52 weeks.

#### Segment Reporting

The Company manages its business on the basis of one segment: broadline closeout retailing. At January 31, 2004, and February 1, 2003, all of the Company’s operations were located within the United States of America.

#### 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 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 which 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 differ from those estimates.

#### Cash, Cash Equivalents, and Short-term Investments

Cash and cash equivalents consist of highly liquid investments which are unrestricted as 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. When the intended holding period of a liquid investment exceeds three months, the Company will classify the cash equivalent as a short-term investment. The Company’s policy is to invest in investment-grade instruments. The Company had invested funds of \$170.3 million at January 31, 2004.

#### 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.

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Factors considered in the determination of markdowns include current and anticipated demand, customer preferences, age of the merchandise, and seasonal trends. When a decision is made to permanently mark down merchandise or a promotional markdown decision is made, the resulting gross profit reduction is recognized in the period the markdown is recorded.

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 would materially reduce its cost of sales.

### **Intangible Assets**

Trademarks, service marks, and other intangible assets are amortized on a straight-line basis over a period of fifteen years. Where there is an indication of impairment, the Company evaluates the fair value and future benefits of the related intangible asset and the anticipated undiscounted future net cash flows from the related intangible asset is calculated and compared to the carrying value. The Company's assumptions related to estimates of future cash flows are based on historical results of cash flows adjusted for management projections for future periods taking into account known conditions and planned future activities. The Company's assumptions regarding the fair value of its intangible assets are based on the discounted future cash flows. At January 31, 2004, the value of the Company's intangible assets was \$0.55 million and the related accumulated amortization was \$0.04 million.

### **Property and Equipment**

Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. Service lives are principally forty years for buildings and from three to fifteen years for other property and equipment.

### **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 taking into account known conditions and planned future activities. The Company's assumptions regarding the fair value of its long-lived assets are based on the discounted future cash flows.

### **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 5 years.

### **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."

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If compensation cost for the Company's stock options had been determined based on the fair value method under the Financial Accounting Standards Board ("FASB"), Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock-Based Compensation," the Company's net income (loss) and net income (loss) per share would have been adjusted to the pro forma amounts as follows:

	Fiscal Year		
	2003	2002	2001
(In thousands, except per share amounts)			
Net income (loss):			
As reported	\$81,175	\$76,557	\$(20,234)
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effect	6,034	5,055	6,756
Pro forma	\$75,141	\$71,502	\$(26,990)
Income (loss) per common share - basic:			
As reported	\$ .70	\$ .66	\$ (.18)
Pro forma	\$ .64	\$ .62	\$ (.24)
Income (loss) per common share - diluted:			
As reported	\$ .69	\$ .66	\$ (.18)
Pro forma	\$ .64	\$ .61	\$ (.24)

## Income Taxes

The Company records income tax loss contingencies for estimates of the outcome or settlement of various asserted and unasserted income tax contingencies including tax audits and administrative appeals. At any one point in time, many tax years may be in various stages of audit or appeals or could be subject to audit by various taxing jurisdictions. This requires a periodic identification and evaluation of significant doubtful or controversial issues both individually and collectively. The results of the audits, appeals, or expiration of the statute of limitations are reflected in the income tax contingency calculations accordingly.

The Company has generated deferred tax assets 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 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), the jurisdictional mix and magnitude of income (loss), 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 liability or asset 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 expenses 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 2003 was 6.8%. A 0.5% increase in the discount rate would reduce the net periodic

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pension cost by \$0.2 million. A 0.5% reduction in the discount rate would increase the net periodic pension cost by \$0.5 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 9.0% long-term rate of return on assets for fiscal year 2003. A one percent increase in the expected long-term rate of return would decrease the net periodic pension cost by \$0.3 million. A one percent decrease in the expected long-term rate of return would increase the net periodic pension cost by \$0.3 million. The Company has reduced the expected long-term rate of return on assets to 8.5% for fiscal year 2004.

### **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 fair value of the long-term obligations is 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, and February 1, 2003, were \$218.0 million and \$225.4 million, respectively, compared to the carrying value of \$204.0 million.

### **Legal Obligations**

In the normal course of business, the Company must make continuing 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 advice 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 that are used by management are based on the requirements of SFAS No. 5, "Accounting for Contingencies." The Company will record a liability related to legal obligations when it has determined that it is probable that the Company will be obligated to pay and the related amount can be reasonably estimated, and it will disclose the related facts in the footnotes to its financial statements, if material. If the Company determines that either an obligation is probable or reasonably possible, 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 outside legal advisors.

### **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 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.

### **Other Comprehensive Income**

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



## **Investments**

Any unrealized gains or losses on equity securities classified as available-for-sale are recorded in other comprehensive income net of applicable income taxes. At January 31, 2004, the Company held no available-for-sale equity securities.

## **Cost of Sales**

Cost of sales includes the cost of merchandise (including related inbound freight), markdowns, and inventory shrinkage, net of cash discounts and rebates. The Company classifies purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and other distribution network 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 costs related to their distribution network in cost of sales.

## **Selling and Administrative Expenses**

The Company includes store expenses (such as payroll and occupancy costs), distribution and transportation costs, advertising, buying, depreciation, insurance, and overhead costs in selling and administrative expenses.

## **Advertising Expense**

Advertising costs are expensed as incurred and consist primarily of print and television advertisements. Advertising expenditures were \$106.7 million, \$96.9 million, and \$91.7 million for fiscal years 2003, 2002, and 2001, respectively.

## **Store Pre-opening Costs**

Pre-opening costs related to new store openings are expensed as incurred.

## **Reclassification**

Certain prior year amounts have been reclassified to conform to current year presentation.

## **Recent Accounting Pronouncements**

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that an obligation associated with the retirement of a tangible long-lived asset be recognized as a liability when incurred. Subsequent to initial measurement, an entity recognizes changes in the amount of the liability resulting from the passage of time and revisions to either the timing or amount of estimated cash flows. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. This pronouncement was adopted in fiscal year 2003 and has no material impact on the Company's financial position, results of operations, or cash flows.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan period. SFAS No. 146 is required to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of this pronouncement has no material impact on the Company's financial position, results of operations, or cash flows.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation." Although it does not require use of the fair value method of accounting for stock-based employee compensation, it does provide alternative methods of transition. It also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148's amendment of the transition and annual disclosure requirements is effective for fiscal years ending after December 15, 2002. The amendment of disclosure requirements of APB No. 28 is effective for interim periods beginning after December 15, 2002. Although the Company has not changed to the fair value method, the disclosure requirements of this pronouncement have been adopted.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 requires companies to recognize certain financial instruments with characteristics of

both liabilities and equity as either a liability or an asset. SFAS No. 150 is required to be applied prospectively to financial statements issued after June 15, 2003. The Company has no financial instruments with characteristics of both liabilities and equity.

In November 2002, the FASB issued Interpretation (“FIN”) No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others.” FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements in this interpretation are required for financial statements for periods ending after December 15, 2002. The initial measurement provisions of the interpretation are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The Company has adopted the provisions of this interpretation.

In January 2003, the FASB issued FIN No. 46, “Consolidation of Variable Interest Entities.” FIN No. 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The disclosure requirements in this interpretation are required for financial statements for periods ending after June 15, 2003. Disclosures are to include variable interest entities created after January 31, 2003, and variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company has no material variable interest entities.

## **KB TOYS MATTERS AND LITIGATION CHARGES**

On January 14, 2004, KB Acquisition Corporation and 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 has 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 (“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; 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, 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 will record a liability. As discussed below, the Company recorded a \$3.7 million charge (net of tax) in the fourth quarter of fiscal year 2003 related to the estimated impact of the KB bankruptcy comprised of a \$10.5 million benefit (net of tax) related to the partial charge-off of the HCC Note (defined below) and KB warrant and a \$14.3 million (net of tax) charge related to KB store lease guarantee obligations.

In connection with the sale of the KB Toys business, the Company received \$258 million in cash and a 10-year note from HCC in the aggregate principal amount of \$45 million. This note bears interest, on an in-kind basis, at the rate of 8% 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. 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 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 million. For tax purposes, the HCC Note was originally recorded at its face value

of \$45 million, and the Company incurred tax liability on the interest, which 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 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 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 2003. A substantial portion of this tax benefit reflects the charge-off of the higher tax basis of the HCC Note (see the Income Taxes Note to the Consolidated Financial Statements for further discussion).

When the Company acquired the KB Toys business from Melville Corporation (now known as CVS New York, Inc., and together with its subsidiaries "CVS") in May 1996, the Company provided, among other things, an indemnity to CVS with respect to any losses resulting from KB's failure to pay all monies due and owing under any KB lease or mortgage obligation guaranteed by CVS. While the Company controlled the KB Toys business, the Company provided guarantees with respect to a limited number of additional store leases. As part of the KB sale, and in accordance with the terms of the KB Stock Purchase Agreement, KB similarly indemnified 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 had guarantee or indemnification obligations, as of January 31, 2004, with respect to: a) approximately 384 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"), owned by Kay-Bee Toy & Hobby Shops, Inc., an affiliate of KB Acquisition Corporation and a party to the bankruptcy proceedings.

In connection with the bankruptcy, KB is required to continue to make lease payments with respect to all leases except those 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, the validity of the applicable guarantee and the like. 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 store leases affected by KB's rejections.

The Company engaged an independent real estate valuation firm to assist it in the analysis of the Company's potential liability with respect to the 90 guaranteed store leases. Based upon analysis of the information currently available, the Company recorded a charge to discontinued operations in the fourth quarter of fiscal year 2003 in the amount of \$14.3 million (net of a \$9.7 million tax benefit) to reflect its best estimate of this loss contingency. The Company intends to take an active role in limiting its potential liability with respect to KB store lease obligations. The Company is not aware of any additional rejections of the remaining 294 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. Nevertheless, 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. If 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.

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 "DC Note"). The Company was informed that, as of January 14, 2004, the DC Note had an outstanding principal amount of approximately \$6.3 million plus accrued interest of approximately \$21,000. Additionally, the mortgage holder has claimed that a make-whole premium of approximately \$1.5 million is also due and payable. The Company is reviewing its rights and obligations regarding the premium. The Company engaged an independent real estate valuation firm to assist it in the analysis of the Company's potential liability with respect to the DC Note. Based

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upon analysis of the information currently available, the Company believes that the fair market value of the Pittsfield DC is between \$6.2 million and \$6.8 million. The Company intends to take an active role in limiting its potential liability with respect to the DC Note. In the event the Company incurs a liability related to the Pittsfield DC, 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. The Company continues to assess the effect of the KB bankruptcy on such mutual indemnification obligations. However, because the KB bankruptcy is in its early stages, the Company has not made any provision for loss contingencies with respect to any non-lease 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.

In another KB matter unrelated to the bankruptcy proceedings mentioned above, 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 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.

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 (see the Income Taxes Note to the Consolidated Financial Statements 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 Mac Frugal's Bargains Close-outs, Inc. appeal (see the Income Taxes Note to the Consolidated Financial Statements 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.

For fiscal year 2003, the Company has recorded, related to KB Toys matters described above, charges to discontinued operations of \$9.7 million (net of tax), or \$0.09 per diluted share, and a benefit to continuing operations of \$10.5 million (net of tax), or \$0.09 per diluted share. The KB Toys charges recorded to discontinued operations represented: a) a \$14.3 million (net of tax) charge related to KB store lease guarantee obligations; b) a \$5.8 million (net of tax) benefit related to the resolution and closure of KB state and local tax matters; and c) a \$1.2 million (net of tax) charge related to certain advertising practices of KB Toys. In another KB matter, the Company recorded to continuing operations a \$10.5 million (net of tax) benefit related to the partial charge-off of the HCC Note and the write-off of the KB warrant. Including the charge of \$5.7 million (net of tax) for the Company's two California class action lawsuits recorded to continuing operations, KB Toys matters and litigation charges totaled \$4.9 million (net of tax).

The Company has, as part of the KB Stock Purchase Agreement, retained the responsibility for certain KB insurance claims incurred through the date of closing of the sale on December 7, 2000. During fiscal year 2001, the Company determined that the estimate for the related insurance reserves exceeded the expected liability. Accordingly, a portion of the insurance reserves established in connection with the sale of the KB Toys business were adjusted and recorded as income from discontinued operations on the Company's Statements of Operations. This adjustment resulted in \$8.5 million (net of tax) of income from discontinued operations in fiscal year 2001.

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The following are the components of discontinued operations:

	Fiscal Year		
	2003	2002	2001
(In thousands)			
(Loss) income on disposal of KB Toys business, net of income tax (benefit) expense of \$(14,691), \$(4,000), and \$5,423 in 2003, 2002, and 2001, respectively.	<u>\$(9,720)</u>	<u>\$ —</u>	<u>\$8,480</u>

The Company also announced on August 20, 2003, that it reached a preliminary agreement to settle the Company's two California class action lawsuits relating to the calculation of earned overtime wages for certain former and current store managers and assistant store managers in that state. Final court approval of the proposed settlement was received 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 recorded during the second quarter of fiscal year 2003. The Company does not expect this settlement to have a material impact on its financial condition, results of continuing operations, or liquidity going forward.

### 2001 CHARGE

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

### LONG-TERM OBLIGATIONS

The long-term obligations at January 31, 2004, were \$204.0 million. There were no direct borrowings under the Revolving Credit Agreement at January 31, 2004, and February 1, 2003. The Company's borrowing base at January 31, 2004, was \$280.5 million. The borrowing base was reduced by outstanding letters of credit totaling \$44.8 million. As a result, \$235.7 million was available under the Revolving Credit Agreement at January 31, 2004.

Interest paid was \$17.4 million in fiscal year 2003, \$17.4 million in fiscal year 2002, and \$19.1 million in fiscal year 2001, which includes capitalized interest of \$3.7 million, \$0.1 million, and \$2.4 million, respectively. The amortization of obligation issuance costs is included in interest expense in the Consolidated Statements of Operations.

### Revolving Credit Agreement

On May 8, 2001, the Company entered into the Revolving Credit Agreement with a group of financial institutions, which consisted of a \$358.75 million three-year revolving credit facility and a \$153.75 million 364-day facility, renewable annually. The Revolving Credit Agreement replaced the Company's prior senior unsecured revolving credit facility ("Prior Revolver") which, at the time of its replacement, consisted of a \$500.0 million revolving credit facility that was due to expire on May 6, 2002. The average interest rate under the Revolving Credit Agreement during fiscal years 2003 and 2002 was 2.4% and 3.0%, respectively.

The Revolving Credit Agreement contains customary affirmative and negative covenants, including financial covenants requiring the Company to maintain specified fixed charge coverage and leverage ratios as well as a minimum level of net worth. The Company was in compliance with its financial covenants at January 31, 2004.

On October 30, 2001, the financial covenants of the Revolving Credit Agreement were amended to provide the Company with increased operating flexibility. On February 25, 2002, the Revolving Credit Agreement was amended to exclude the fiscal year 2001 charge (see 2001 Charge in the Notes to the Consolidated Financial Statements) from the fixed charge coverage

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and leverage ratio financial covenant calculations. As part of the February 25, 2002, amendments, the Company provided collateral, consisting principally of its inventories, as security for the Revolving Credit Agreement, and agreed to certain changes in other terms.

The February 25, 2002, amendment to the Revolving Credit Agreement imposed certain limitations on the extent to which the Company may borrow under the Revolving Credit Agreement. The Company's borrowing base fluctuates at least quarterly based on the value of the Company's inventory, as determined in accordance with the Revolving Credit Agreement. On April 30, 2002, the Revolving Credit Agreement was further amended to increase the applicable borrowing base factor.

On May 8, 2002, the Company's 364-day facility expired. This facility had not been used during the prior year and, accordingly, was not renewed. On July 31, 2003, the Revolving Credit Agreement was further amended to extend the maturity one year to May 2005, and to reduce the size of the facility from \$358.75 million to \$300.0 million to better match the facility size with the liquidity needs of the Company and minimize facility fees. The Company believes that the \$300.0 million revolving credit facility, combined with cash provided by operations and existing cash balances, provide sufficient liquidity to meet its operating and seasonal borrowing needs.

### Senior Notes

On May 8, 2001, the Company entered into the Note Purchase Agreement pursuant to which it completed a \$204.0 million private placement of senior notes with maturities ranging from four to six years ("Senior Notes").

Principal maturities of the Senior Notes are as follows:

(In thousands)	
2004	\$ —
2005	174,000
2006	15,000
2007	15,000
Long-term obligations	<u>\$204,000</u>

The Note Purchase Agreement and Senior Notes currently carry a weighted-average yield of 8.21% and rank pari passu with the Company's Revolving Credit Agreement. Proceeds from the issue were used to pay down the Prior Revolver.

The Senior Notes contain customary affirmative and negative covenants including financial covenants requiring the Company to maintain specified fixed charge coverage and leverage ratios as well as a minimum level of net worth. The Company was in compliance with its financial covenants at January 31, 2004.

On February 25, 2002, the Note Purchase Agreement was amended to exclude the fiscal year 2001 charge (see 2001 Charge in the Notes to the Consolidated Financial Statements) from the fixed charge coverage and leverage ratio financial covenant calculations. As part of the February 25, 2002, amendment, the Company provided collateral, consisting principally of its inventories, as security for the Senior Notes, and agreed to certain changes in other terms.

### COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries are or may be subject to certain commitments and contingencies, including legal proceedings, taxes, insurance, and other matters that are incidental to their ordinary course of business. The Company will record a liability related to its commitments and contingencies when it has determined that it is probable that the Company will be obligated to pay and the related amount can be reasonably estimated, and it will disclose the related facts in the footnotes to its financial statements, if material. If the Company determines that either an obligation is probable or reasonably possible, 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.

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The Company has contractual obligations to certain vendors for the future purchase of goods and services totaling approximately \$1,209.2 million at January 31, 2004. Purchase obligations include outstanding purchase orders for retail merchandise issued in the ordinary course of the Company's business that are valued at \$463.7 million, the entirety of which represents obligations due within one year of January 31, 2004. Purchase obligations also include a commitment for future inventory purchases totaling \$359.8 million at January 31, 2004, though the Company is not required to meet any periodic minimum purchase requirements under this commitment. The remaining \$385.7 million is primarily related to distribution and transportation commitments and future advertising services.

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 does not expect this settlement to have a material impact on its financial condition, results of continuing operations, or liquidity going forward.

The Company has 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 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 2003 related to the estimated impact of the KB bankruptcy comprised of a \$10.5 million benefit (net of tax) related to the partial charge-off of the HCC note and KB warrant and a \$14.3 million (net of tax) charge related to KB store lease guarantee obligations (see KB Toys Matters and Litigation Charges in the Notes to the Consolidated Financial Statements for further discussion).

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

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, the employment-related matter described above, the lawsuit related to certain advertising practices of KB Toys, and the liabilities described above that relate to the KB bankruptcy, the Company has not recorded any additional liabilities.

## INCOME TAXES

The provision for income taxes from continuing operations is comprised of the following:

	Fiscal Year		
	2003	2002	2001
<b>(In thousands)</b>			
Federal - current	\$11,133	\$ (2,310)	\$ 5,529
State and local - current	7,612	2,273	820
Deferred - federal, state and local	5,306	50,021	(25,096)
Income tax expense (benefit)	<u>\$24,051</u>	<u>\$49,984</u>	<u>\$ (18,747)</u>

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

	Fiscal Year		
	2003	2002	2001
Statutory federal income tax rate	35.0%	35.0%	35.0%
Effect of:			
State and local income taxes, net of federal tax benefit	3.4	2.0	4.5
Work opportunity tax credits	(1.1)	(1.0)	(2.6)
Valuation allowance	(11.2)	3.8	7.8
Reversal of previously accrued federal taxes	(5.7)	—	—
Other, net	0.5	(0.3)	(5.2)
Effective income tax rate	<u>20.9%</u>	<u>39.5%</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.

On January 14, 2004, KB declared bankruptcy and the HCC Note was partially charged off. Since it is now unlikely that the Company will sell the HCC Note for an amount that is substantially less than its tax basis, the valuation allowance is no longer required and was reversed in fiscal year 2003.

Income tax payments and refunds are as follows:

	Fiscal Year		
	2003	2002	2001
<b>(In thousands)</b>			
Income taxes paid	\$45,213	\$ 39,066	\$ 8,969
Income taxes refunded	(3,692)	(74,758)	(76,558)
Net income taxes paid (refunded)	<u>\$41,521</u>	<u>\$(35,692)</u>	<u>\$(67,589)</u>

In fiscal years 2002 and 2001, the Company received federal tax refunds of \$62.5 million and \$73.2 million, respectively, relating to the carryback of the fiscal year 2000 net operating loss resulting from the sale of KB Toys.



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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 are presented in the following table:

	January 31, 2004	February 1, 2003
<b>(In thousands)</b>		
Deferred tax assets:		
Uniform inventory capitalization	\$ 24,175	\$ 26,723
Workers' compensation and other insurance reserves	25,135	22,929
Depreciation and fixed asset basis differences	12,815	15,055
State tax net operating losses, net of federal tax benefit	12,642	12,438
Capital loss carryover	10,740	10,687
Accrued state taxes	10,278	11,252
KB store lease contingencies	9,761	—
HCC Note	1,675	14,984
Valuation allowances, net of federal tax benefit	(17,411)	(32,260)
Other	45,917	39,523
Total deferred tax assets	135,727	121,331
Deferred tax liabilities:		
Depreciation and fixed asset basis differences	28,102	19,816
Other	24,797	22,528
Total deferred tax liabilities	52,899	42,344
Net deferred tax assets	\$ 82,828	\$ 78,987

Net deferred tax assets are 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 31, 2004	February 1, 2003
<b>(In thousands)</b>		
Current deferred income taxes	\$82,406	\$61,221
Noncurrent deferred income taxes	422	17,766
Net deferred tax assets	\$82,828	\$78,987

The Company has state net operating loss carryforwards primarily arising from the sale of KB Toys of \$19.4 million. The state net operating loss carryforwards will expire from fiscal year 2004 through 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.

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The Company has the following income tax loss and credit carryforwards at January 31, 2004, (presentation of amounts is shown net of tax):

<b>(In thousands)</b>		
<b>Federal:</b>		
Net capital loss carryforwards	\$10,740	Expires fiscal year 2005
Foreign tax credits	383	Expires fiscal year 2005
<b>State and local:</b>		
Columbus enterprise zone credits	1,755	Expires fiscal year 2005
California enterprise zone credits	1,962	No expiration date
Total income tax loss and credit carryforwards	\$14,840	

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 \$0.4 million, \$1.4 million, and \$3.2 million (net of tax) in fiscal years 2003, 2002, and 2001, respectively.

During the fourth quarter of fiscal year 2003, the Company received correspondence from the Congressional Joint Committee on Taxation that it had completed its consideration of the Internal Revenue Service ("IRS") field examination report related to the IRS audit of the Company's fiscal year 1997 through fiscal year 2000 consolidated income tax returns. The IRS and the Company have agreed that the Company can amend its fiscal year 1997 through fiscal year 2001 federal income tax returns primarily for rollforward adjustments that resulted from prior IRS examinations. The Company has also reached a substantial resolution with the Appeals Division of the IRS on issues raised during the examination of Mac Frugal's Bargains Close-outs, Inc.'s consolidated tax returns for years prior to its acquisition by the Company. Various state and local level income tax examinations have either been substantially settled or closed during the year. In conjunction with the substantial resolution and closure of these items, the Company has 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.

## **EMPLOYEE BENEFIT PLANS**

### **Pension Benefits**

The Company has a qualified defined benefit pension plan ("Pension Plan") and a non-qualified supplemental defined benefit pension plan ("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.

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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	0 - 25%

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.

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 are as follows:

	2003	2002
Equity securities	59.4%	76.1%
Debt securities	22.4	11.1
Real estate	4.6	—
Other	13.6	12.8
Total	100.0%	100.0%

The Company's funding policy of the Pension Plan is to make annual contributions based on advice from its actuaries and evaluation of its cash position, but not less than the minimum required by applicable regulations. The Company expects no required contribution during fiscal year 2004. Additional discretionary contributions could be made upon further analysis of the Pension Plan during fiscal year 2004.

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

	Fiscal Year		
	2003	2002	2001
<b>(In thousands)</b>			
Service cost - - benefits earned in the period	\$ 3,125	\$ 3,550	\$ 3,377
Interest cost on projected benefit obligation	2,971	2,887	2,658
Expected investment return on plan assets	(2,866)	(2,163)	(2,227)
Amortization of prior service cost	135	(115)	(135)
Amortization of transition obligation	13	13	13
Recognized actuarial loss	1,345	1,104	531
Net periodic pension cost	<u>\$ 4,723</u>	<u>\$ 5,276</u>	<u>\$ 4,217</u>

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

	Fiscal Year		
	2003	2002	2001
Discount rate	6.8%	7.2%	7.6%
Rate of increase in compensation levels	5.1%	5.5%	5.5%
Expected long-term rate of return	9.0%	9.0%	9.0%
Measurement date for plan assets and benefit obligations	12/31/02	12/31/01	12/31/00

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. 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 9.0% long-term rate of return on assets for fiscal year 2003. The Company has reduced the long-term rate of return on assets to 8.5% for fiscal year 2004.

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

	Pension Plan		Supplemental Pension Plan	
	2003	2002	2003	2002
<b>(In thousands)</b>				
Projected benefit obligation	\$48,868	\$42,478	\$5,286	\$2,882
Accumulated benefit obligation	36,126	33,255	2,937	1,615
Fair market value of plan assets	42,601	33,524	—	—

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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:

	2003	2002
<b>(In thousands)</b>		
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 45,360	\$ 41,680
Service cost	3,125	3,550
Interest cost	2,971	2,887
Benefits paid	(3,913)	(3,526)
Plan amendment	—	870
Actuarial loss (gain)	6,611	(101)
Projected benefit obligation at end of year	<u>\$ 54,154</u>	<u>\$ 45,360</u>
Change in plan assets:		
Fair market value at beginning of year	\$ 33,524	\$ 25,262
Actual return on plan assets	7,297	(1,990)
Employer contribution	5,693	13,778
Benefits paid	(3,913)	(3,526)
Fair market value at end of year	<u>\$ 42,601</u>	<u>\$ 33,524</u>
Funded status	\$(11,553)	\$(11,836)
Unrecognized actuarial loss	15,263	14,460
Unrecognized transition obligation	133	145
Unrecognized prior service cost	866	1,001
Net amount recognized	<u>\$ 4,709</u>	<u>\$ 3,770</u>
Prepaid benefit cost	\$ 8,683	\$ 7,001
Accrued benefit cost	(3,974)	(3,231)
Net amount recognized	<u>\$ 4,709</u>	<u>\$ 3,770</u>

Weighted-average assumptions used to determine benefit obligations for fiscal years 2003 and 2002 were:

	Fiscal Year	
	2003	2002
Discount rate	6.1%	6.8%
Rate of increase in compensation levels	4.6%	5.1%
Measurement date for plan assets and benefit obligations	12/31/03	12/31/02

## Savings Plan

The Company has a savings plan with a 401(k) deferral feature and a non-qualified supplemental savings plan with a similar deferral feature for eligible employees. Employees may direct their contributions into various investment options offered by the plans. The Company contributes a matching percentage of employee contributions up to a maximum percentage of base salary. The Company matching contribution is invested directly in the Company's common shares. During the fiscal years 2003, 2002, and 2001, the Company expensed to operations \$4.7 million, \$5.6 million, and \$2.0 million, respectively.

## 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 lease expense, including real estate taxes, CAM, and property insurance, charged to operations for operating leases of stores and warehouses, consisted of the following:

	Fiscal Year		
	2003	2002	2001
(In thousands)			
Minimum leases	\$244,691	\$207,779	\$186,341
Contingent leases	509	1,527	1,169
Total lease expense	<u>\$245,200</u>	<u>\$209,306</u>	<u>\$187,510</u>

Future minimum commitments for operating leases, stores, and warehouses, excluding real estate taxes, CAM, and property insurance at January 31, 2004, are as follows:

Fiscal Year	
(In thousands)	
2004	\$202,385
2005	176,859
2006	140,733
2007	104,572
2008	76,835
Thereafter	<u>121,222</u>
Total operating lease obligations	<u>\$822,606</u>

## 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 31, 2004, which were excluded from the computation of earnings per share. Fully diluted shares are not presented for the year ended February 2, 2002, as the Company incurred a loss from continuing operations and to include these shares would be antidilutive. At February 2, 2002, an aggregate of 200,663 common shares subject to unexercised stock options were excluded from the computation of diluted earnings per share.

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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		
	2003	2002	2001
(In thousands)			
Weighted-average common shares outstanding:			
Basic	116,757	115,865	113,660
Dilutive effect of stock options	496	842	—
Diluted	<u>117,253</u>	<u>116,707</u>	<u>113,660</u>

### Stockholder Rights Plan

On August 22, 2001, the Company announced that its Board of Directors had unanimously voted to redeem the preferred stock rights under the Company's Rights Agreement. The redemption was a direct result of the Company's redomestication into Ohio, as approved by its shareholders at the Company's 2001 Annual Meeting of Shareholders. Pursuant to the terms of the Rights Agreement, the Company redeemed the rights by paying a redemption price of \$0.01 per right. The redemption was made to all shareholders of record as of the close of business on August 31, 2001.

## STOCK PLANS

### Stock Option Plans

The Big Lots, Inc., 1996 Performance Incentive Plan, as amended ("Incentive Plan"), provides for the issuance of stock options, restricted stock, performance units, stock equivalent units, and stock appreciation rights ("SARs"). The Company has not issued any restricted stock, performance units, stock equivalent units, or SARs under the Incentive Plan. The number of newly issued common shares available for issuance under the Incentive Plan at the time of the plan's inception was 2,000,000 shares (3,125,000 shares as adjusted to account for the five for four stock splits which occurred in December 1996 and June 1997) plus an additional 1% of the total number of issued shares, including any Treasury Stock, at the start of the Company's fiscal year plus shares available, but not issued in previous years of the Incentive Plan. Total newly issued common shares available for use under the Incentive Plan, combined with any awards of stock options or restricted stock outstanding from any other plan of the Company, shall not exceed 15% of the total issued and outstanding common shares as of any measurement date. At January 31, 2004, 13,657,384 common shares were available for issuance under the Incentive Plan. The Compensation Committee of the Board of Directors, which is charged with administering the Incentive Plan, determines the term of each award. Stock options granted under the 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 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. Upon an effective change in control of the Company, all awards outstanding under the Incentive Plan automatically vest.

The Company has a Director Stock Option Plan ("DSOP") for nonemployee directors. The number of newly issued common shares available for issuance under the DSOP at the time of the plan's inception was 500,000 shares (781,250 shares as adjusted to account for the five for four stock splits which occurred in December 1996 and June 1997). The DSOP is administered by the Compensation Committee of the Board of Directors pursuant to an established formula. Neither the Board of Directors nor the Compensation Committee exercise any discretion in administration of the DSOP. 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 for an annual grant of 10,000 options to each nonemployee director which becomes 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.

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Changes in the status of outstanding options were as follows:

	Options	Price(a)
Outstanding at February 3, 2001	10,796,225	\$17.02
Granted	2,497,019	11.53
Exercised	1,775,649	6.87
Forfeited	1,450,174	22.41
Outstanding at February 2, 2002	10,067,421	16.65
Granted	1,931,800	12.36
Exercised	1,324,701	12.16
Forfeited	1,269,427	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

(a) Weighted-average per share exercise price.

The following table summarizes information about the Company's stock option plans at January 31, 2004:

Range of Prices		Options Outstanding			Options Exercisable	
Greater Than	Less Than or Equal to	Options Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
\$ 1	\$ 10	160,786	7.1	\$ 9.67	79,086	\$ 9.56
\$10	\$ 20	9,178,812	6.7	12.25	3,966,301	12.87
\$20	\$ 30	721,438	3.1	26.38	719,938	26.39
\$30	\$ 40	635,380	4.1	37.46	634,580	37.47
\$40		28,500	3.9	40.80	28,500	40.80
		10,724,916	6.3	\$14.73	5,428,405	\$17.64

The Company previously adopted 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.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Fiscal Year		
	2003	2002	2001
Weighted-average fair value of options granted	\$5.49	\$ 6.51	\$ 5.12
Risk-free interest rates	3.0%	4.3%	4.5%
Expected life (years)	4.8	5.4	4.1
Expected volatility	58.0%	54.8%	51.2%



## ADDITIONAL DATA

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

	January 31, 2004	February 1, 2003
(In thousands)		
Accounts receivable	\$ 19,847	\$ 21,369
Prepaid expenses and other current assets	44,550	42,213
Other current assets	\$ 64,397	\$ 63,582
Land	\$ 39,688	\$ 39,564
Buildings	564,516	481,372
Fixtures and equipment	604,706	537,630
Transportation	21,912	21,204
Construction-in-progress	14,340	15,356
Property and equipment - cost	1,245,162	1,095,126
Less accumulated depreciation	639,635	562,226
Property and equipment - net	\$ 605,527	\$ 532,900
Operating expenses	\$ 80,923	\$ 49,032
Salaries and wages	39,268	45,525
Insurance reserves	66,333	63,177
Property, payroll, and other taxes	101,342	107,177
Interest and income taxes	13,836	25,673
Accrued liabilities	\$ 301,702	\$ 290,584

The \$31.9 million change in the operating expenses component of accrued liabilities from fiscal year 2002 to fiscal year 2003 is primarily due to a \$24.0 million reserve related to KB Toys store lease guarantee obligations made in connection with the KB bankruptcy filed on January 14, 2004, and a \$9.1 million reserve related to an agreement to settle the California wage and hour class action lawsuits (see KB Toys Matters and Litigation Charges in the Notes to the Consolidated Financial Statements for further discussion).

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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		
	2003	2002	2001
(In thousands)			
Inventories	\$(53,359)	\$(70,917)	\$ 39,652
Other current assets	(815)	(7,048)	4,386
Accounts payable	42,071	3,577	(3,599)
Accrued operating expenses	13,235	56,963	8,959
Interest and income taxes	(11,837)	22,050	74,700
Change in assets and liabilities, excluding the effect of discontinued operations	<u>\$(10,705)</u>	<u>\$ 4,625</u>	<u>\$124,098</u>

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 \$62.4 million (before tax) fiscal year 2001 charge (see 2001 Charge in the Notes to the Consolidated Financial Statements). The \$57.0 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.

The \$74.7 million change in income taxes in fiscal year 2001 was primarily due to a \$73.2 million federal income tax refund. The refund was generated through the recovery of federal taxes paid for fiscal years 1998 and 1999 due to the carryback of the fiscal year 2000 net operating loss from the sale of the KB Toys business.

**SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

Summarized quarterly financial data for fiscal years 2003, 2002, and 2001 is as follows:

	First	Second	Third	Fourth	Year
<b>2003</b>					
<i>(In thousands, except per share amounts) (a)</i>					
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	10,193	(7,969)	(5,118)	93,789	90,895
Net income (loss)	10,193	(7,969)	(6,377)	85,328	81,175
Income (loss) per common share - basic:					
Continuing operations	.09	(.07)	(.04)	.80	.78
Discontinued operations	—	—	(.01)	(.07)	(.08)
	<u>\$ .09</u>	<u>\$ (.07)</u>	<u>\$ (.05)</u>	<u>\$ .73</u>	<u>\$ .70</u>
Income (loss) per common share - diluted:					
Continuing operations	.09	(.07)	(.04)	.80	.78
Discontinued operations	—	—	(.01)	(.07)	(.09)
	<u>\$ .09</u>	<u>\$ (.07)</u>	<u>\$ (.05)</u>	<u>\$ .73</u>	<u>\$ .69</u>
<b>2002</b>					
<i>(In thousands, except per share amounts) (a)</i>					
Net sales	\$904,141	\$879,255	\$868,163	\$1,216,991	\$3,868,550
Gross profit	378,502	368,262	366,244	518,909	1,631,917
Income (loss) from continuing operations	12,207	3,218	(5,076)	66,208	76,557
Net income (loss)	12,207	3,218	(5,076)	66,208	76,557
Income (loss) per common share - basic:					
Continuing operations	.11	.03	(.04)	.57	.66
Discontinued operations	—	—	—	—	—
	<u>\$ .11</u>	<u>\$ .03</u>	<u>\$ (.04)</u>	<u>\$ .57</u>	<u>\$ .66</u>
Income (loss) per common share - diluted:					
Continuing operations	.11	.03	(.04)	.57	.66
Discontinued operations	—	—	—	—	—
	<u>\$ .11</u>	<u>\$ .03</u>	<u>\$ (.04)</u>	<u>\$ .57</u>	<u>\$ .66</u>

	First	Second	Third	Fourth	Year
<b>2001</b>					
<i>(In thousands, except per share amounts) (a)</i>					
Net sales	\$773,621	\$748,380	\$773,106	\$1,138,214	\$3,433,321
Gross profit	313,918	299,927	316,641	410,652	1,341,138
Income (loss) from continuing operations	298	(10,699)	(16,364)	(1,949)	(28,714)
Net income (loss)	298	(10,699)	(16,364)	6,531	(20,234)
Income (loss) per common share - basic:					
Continuing operations	.00	(.09)	(.14)	(.02)	(.25)
Discontinued operations	—	—	—	.08	.07
	<u>\$ .00</u>	<u>\$ (.09)</u>	<u>\$ (.14)</u>	<u>\$ .06</u>	<u>\$ (.18)</u>
Income (loss) per common share - diluted:					
Continuing operations	.00	(.09)	(.14)	(.02)	(.25)
Discontinued operations	—	—	—	.08	.07
	<u>\$ .00</u>	<u>\$ (.09)</u>	<u>\$ (.14)</u>	<u>\$ .06</u>	<u>\$ (.18)</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**

None.

**Item 9A. Controls and Procedures**

- (a) *Evaluation of disclosure controls and procedures.* The Company's Chief Executive Officer and Chief Financial Officer, with the participation of the Company's management, have performed an evaluation of the Company's disclosure controls and procedures, as that term is defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on the evaluation, which disclosed no significant deficiencies or material weaknesses, the Company's Chief Executive Officer and Chief Financial Officer have each concluded that such disclosure controls and procedures are effective in design and operation in order to ensure that information required to be disclosed in the Company's periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules, forms and regulations.
- (b) *Changes in internal controls.* No changes in the Company's internal controls over financial reporting occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**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 Company's Proxy Statement dated April 8, 2004, with respect to directors, code of ethics, Audit Committee, 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. Executive officers are listed below:

**EXECUTIVE OFFICERS OF THE REGISTRANT**

<b>Name</b>	<b>Age</b>	<b>Offices Held</b>	<b>Officer Since</b>
Michael J. Potter	42	Chairman, Chief Executive Officer and President	1991
Albert J. Bell	43	Vice Chairman and Chief Administrative Officer	1988
Brad A. Waite	46	Executive Vice President, Human Resources and Loss Prevention	1998
John C. Martin	53	Executive Vice President, Merchandising	2003
Donald A. Mierzwa	53	Executive Vice President, Store Operations	1998
Joe R. Cooper	46	Senior Vice President and Chief Financial Officer	2000
Kent Larsson	60	Senior Vice President, Marketing	1998
Anita C. Elliott	39	Vice President Controller	2001
Charles W. Haubiel II	38	Vice President, General Counsel and Corporate Secretary	1999
Timothy A. Johnson	36	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 additional responsibilities for Distribution and Information Services.

*Albert J. Bell* oversees finance, human resources, loss prevention, real estate, legal, risk management, and information technology. Mr. Bell was appointed Vice Chairman of the Board of Directors and promoted to Chief Administrative Officer in June 2000. Mr. Bell joined the Company in 1987 as General Counsel and held various senior management positions in the legal and real estate areas of the Company including Senior Vice President and Executive Vice President prior to his promotion in 2000 to his current position of Chief Administrative Officer.

*Brad A. Waite* is responsible for human resources, loss prevention, 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 his current position in July 2000.

*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 and previously served as President and Chief Operating Officer of Michaels Stores and President, Retail Stores Division of Officemax.

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

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

*Kent Larsson* is responsible for marketing, merchandise presentation, sales promotion, and public relations. Mr. Larsson joined the Company in 1988 as Vice President of 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 reporting, payroll, expense and internal controls of the business. 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. She also practiced public accounting for twelve years, a portion of which was with Ernst & Young LLP.

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*Charles W. Haubiel II* is responsible for the Company's legal affairs. He was promoted to Vice President, General Counsel and Corporate Secretary in July 2000. He joined the Company in 1997 as Senior Staff Counsel and was promoted to Director, Corporate Counsel and Assistant Secretary in 1999. Prior to joining the Company, Mr. Haubiel practiced law with the law firm of Vorys, Sater, Seymour and Pease 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, The Limited, Inc., and Coopers & Lybrand.

### **Item 11. Executive Compensation**

The information contained under the captions "Director Compensation" and "Executive Compensation" in the Company's Proxy Statement dated April 8, 2004, 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 caption "Ownership of Company Stock by Certain Beneficial Owners and Management" in the Company's Proxy Statement dated April 8, 2004, with respect to security ownership of certain beneficial owners and management, is incorporated herein by reference in response to this item. The balance of the information required by this item is contained in Item 5 of this Annual Report on Form 10-K.

### **Item 13. Certain Relationships and Related Transactions**

The information contained under the caption "Certain Relationships and Related Transactions" in the Company's Proxy Statement dated April 8, 2004, with respect to certain relationships and related transactions, is incorporated herein by reference in response to this item.

### **Item 14. Principal Accountant 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 the Company's 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 auditor in fiscal 2003, 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 the Company's independent auditor, Deloitte & Touche LLP, during the two most recently completed fiscal years were as follows:

	2003	2002
Audit Fees	\$436,000	\$374,000
Audit-related Fees (a)	\$ 67,000	\$164,000
Tax Fees (b)	\$148,000	\$145,000
All Other Fees (c)	\$ —	\$ 4,000

- (a) Principally audits of employee benefit plans and services with respect to compliance with the Sarbanes-Oxley Act of 2002.
- (b) Principally tax return preparation, tax planning, and tax compliance services.
- (c) Consistent with the information called for in this Item 14 and Item 9(e) of Schedule 14A of the Securities Exchange Act of 1934, the fees reported above in the All Other Fees category for fiscal 2002 differ from the Company's 2003 Proxy Statement. The difference is due to the reclassification of fees from three categories (audit fees, financial information systems design and implementation fees, and all other fees) for fiscal 2002 disclosures to the four categories disclosed in the above table. Under the current classification, the \$313,000 of All Other Fees disclosed in the Company's 2003 Proxy Statement, are comprised of \$164,000 of Audit-related Fees, \$145,000 of Tax Fees, and \$4,000 of All Other Fees, each of which are reflected in the above table.



**PART IV****Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K****(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 is not material or is included in the Consolidated Financial Statements or Notes thereto.

**(b) Reports on Form 8-K**

The Company filed Current Reports on Form 8-K during the fourth quarter of fiscal 2003 on the following dates for the purposes specified: (i) on November 21, 2003, to report the Company's financial results for the third quarter of fiscal 2003; (ii) on December 2, 2003, to report the hiring of John C. Martin as the Company's Executive Vice President of Merchandising, and to report sales information included in an article in The Wall Street Journal; (iii) on January 9, 2004, to report the appointment of Joe R. Cooper as Senior Vice President and Chief Financial Officer; and (iv) on January 16, 2004, to report that KB Acquisition and affiliated entities filed for bankruptcy protection pursuant to Chapter 11 of title 11 of the United States Code.

**(c) Exhibits**

Exhibits marked with an asterisk (\*) are filed herewith.

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Exhibit No.	Document
2	Agreement of Merger dated as of 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(a)	Amended Articles of Incorporation of the Company dated as of 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(b)	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(a)	Big Lots, Inc. 1996 Performance Incentive Plan as Amended and Restated on 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(b)	Consolidated Stores Corporation Directors Stock Option Plan (Exhibit 10(q) to the Company's Registration Statement (No. 33-42502) on Form S-8 and incorporated herein by reference).
10(b)(i)	Big Lots, Inc. Amended and Restated Directors 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(b)(ii)	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(c)*	Big Lots, Inc. Supplemental Savings Plan.
10(d)*	Big Lots Stores, Inc. Defined Benefit Pension Plan.
10(e)	Credit Agreement dated as of May 8, 2001, by and among Big Lots Stores, Inc., an Ohio corporation (formerly Consolidated Stores Corporation, an Ohio corporation), as Borrower, the Guarantors (as defined) party thereto, the Banks (as defined) thereto, National City Bank, in its capacity as Administrative Agent, Lead Arranger and a Managing Agent, PNC Bank, National Association and First Union National Bank, as Documentation Agents and Managing Agents, and Bank of America, N.A., The Bank of New York and Firststar Bank, N.A., as Other Managing Agents (Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended May 5, 2001, and incorporated herein by reference).
10(e)(i)	First Amendment to Credit Agreement dated as of October 30, 2001, by and among Big Lots Stores, Inc., an Ohio corporation (formerly Consolidated Stores Corporation, an Ohio corporation), as Borrower, the Guarantors (as defined) parties thereto, the Banks (as defined), and National City Bank, as Administrative Agent (Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 3, 2001, and incorporated herein by reference).
10(e)(ii)	Second Amendment to Credit Agreement dated as of February 25, 2002, by and among Big Lots Stores, Inc., an Ohio corporation (formerly Consolidated Stores Corporation, an Ohio corporation), as Borrower, the Guarantors (as defined) parties thereto, the Banks (as defined), National City Bank, as Administrative Agent (Exhibit 10(e)(ii) to the Company's Annual Report on Form 10-K for the year ended February 2, 2002, and incorporated herein by reference).

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Exhibit No.	Document
10(e)(iii)	Security Agreement dated as of February 25, 2002, given by Big Lots Stores, Inc., an Ohio corporation, and the other Debtors (as defined), in favor of National City Bank, as agent for the Banks (as defined) (Exhibit 10(e)(iii) to the Company's Annual Report on Form 10-K for the year ended February 2, 2002, and incorporated herein by reference).
10(e)(iv)	Third Amendment to Credit Agreement dated as of April 30, 2002, by and among Big Lots Stores, Inc., an Ohio corporation (formerly Consolidated Stores Corporation, an Ohio corporation), as Borrower, the Guarantors (as defined) parties thereto, the Banks (as defined), National City Bank, as Administrative Agent (Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended May 4, 2002, and incorporated herein by reference).
10(e)(v)	Fourth Amendment to Credit Agreement dated as of July 31, 2003, by and among Big Lots Stores, Inc., an Ohio corporation (formerly Consolidated Stores Corporation, an Ohio corporation), as Borrower, the Guarantors (as defined) parties thereto, the Banks (as defined), National City Bank, as Administrative Agent (Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 2, 2003, and incorporated herein by reference).
10(f)	Employment Agreement with Michael J. Potter (Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 29, 2000, and incorporated herein by reference).
10(g)	Employment Agreement with Albert J. Bell (Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 29, 2000, and incorporated herein by reference).
10(h)	Employment Agreement with Charles Freidenberg (Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 29, 1995, and incorporated herein by reference).
10(i)*	Big Lots, Inc. Savings Plan and Trust.
10(j)	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(k)	Form of Executive Severance Agreement of the Company (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(l)	Form of Senior Executive Severance Agreement of the Company (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(m)*	Big Lots Executive Benefit Plan.
10(n)	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).
10(o)	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).

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Exhibit No.	Document
10(p)	Note Purchase Agreement dated as of May 1, 2001, by and among Big Lots Stores, Inc., an Ohio corporation (formerly Consolidated Stores Corporation, an Ohio corporation), Big Lots, Inc., an Ohio corporation (formerly Consolidated Stores Corporation, a Delaware corporation), and each of the Purchasers (as defined)( Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended May 5, 2001, and incorporated herein by reference).
10(p)(i)	First Amendment to Note Purchase Agreement dated as of February 25, 2002, by and among Big Lots Stores, Inc., an Ohio corporation (formerly Consolidated Stores Corporation, an Ohio corporation), Big Lots, Inc., an Ohio corporation (formerly Consolidated Stores Corporation, a Delaware corporation), and each of the Purchasers (as defined)(Exhibit 10(r)(i) to the Company's Annual Report on Form 10-K for the year ended February 2, 2002, and incorporated herein by reference).
10(p)(ii)	Security Agreement dated as of February 25, 2002, given by Big Lots Stores, Inc., an Ohio corporation, and the other Debtors (as defined), in favor of the Holders (as defined)(Exhibit 10(r)(ii) to the Company's Annual Report on Form 10-K for the year ended February 2, 2002, and incorporated herein by reference).
10(q)*	Employment Agreement with Kent Larsson dated February 1, 2004.
10(r)*	Employment Agreement with Donald A. Mierzwa dated February 1, 2004.
10(s)*	Employment Agreement with Brad A. Waite dated February 1, 2004.
10(t)	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(u)*	Big Lots Stores, Inc. Supplemental Defined Benefit Pension Plan.
21*	List of subsidiaries of the Company.
23*	Consent of Deloitte & Touche LLP.
24	Power of Attorney for William G. Kelley, Michael L. Glazer and Michael J. Potter (Exhibit 24 included in Part II of the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference).
24.1	Power of Attorney for David T. Kollat (Exhibit 24.1 to the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference).
24.2	Power of Attorney for Dennis B. Tishkoff (Exhibit 24.4 to the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference).
24.3	Power of Attorney for Sheldon M. Berman (Exhibit 24.6 to the Company's Registration Statement (No. 333-2545) on Form S-3 and incorporated herein by reference).
24.4	Power of Attorney for Brenda J. Lauderback (Exhibit 24.7 to the Company's Registration Statement (No. 333-32063) on Form S-8 and incorporated herein by reference).
24.5*	Power of Attorney for Albert J. Bell.

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<b>Exhibit No.</b>	<b>Document</b>
24.6*	Power of Attorney for Philip E. Mallott.
24.7*	Power of Attorney for Ned Mansour.
24.8*	Power of Attorney for Russell Solt.
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.

Copies of exhibits will be furnished upon written request and payment of Registrant's reasonable expenses in furnishing the exhibits.

**BIG LOTS, INC. AND SUBSIDIARIES**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
**(In thousands)**

<b>Inventory Valuation Allowance (a)</b>	<b>Beginning of Year</b>	<b>Charged to Cost and Expense</b>	<b>Charged to Other Accounts</b>	<b>Deductions</b>	<b>End of Year</b>
Fiscal year ended January 31, 2004	\$2,879	268	—	496	\$2,651
Fiscal year ended February 1, 2003	\$1,672	1,337	—	130	\$2,879
Fiscal year ended February 2, 2002	\$1,659	224	—	211	\$1,672

(a) Consists primarily of reserve for merchandise returns and markdowns of aged goods.

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.

Date: March 30, 2004

BIG LOTS, INC.  
  
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: March 30, 2004

By:   /s/ Michael J. Potter  
\_\_\_\_\_  
  
Michael J. Potter  
*Chairman of the Board, Chief Executive Officer  
and President*

Date: March 30, 2004

By: /s/ Joe R. Cooper  
\_\_\_\_\_  
  
Joe R. Cooper  
*Senior Vice President and Chief  
Financial Officer*

Date: March 30, 2004

Sheldon M. Berman	Philip E. Mallott	Russell Solt
David T. Kollat	Ned Mansour	Dennis B. Tishkoff
Brenda J. Lauderback	Michael J. Potter	
<i>Directors</i>	<i>Directors</i>	<i>Directors</i>

Albert J. Bell, by signing his name hereto, does hereby sign this 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.

By:   /s/ Albert J. Bell  
\_\_\_\_\_  
  
Albert J. Bell  
*Vice Chairman of the Board  
and Chief Administrative Officer*

By:   /s/ Albert J. Bell  
\_\_\_\_\_  
  
Albert J. Bell  
*Attorney-in-Fact*

Dated: March 30, 2004

BIG LOTS, INC.

SUPPLEMENTAL SAVINGS PLAN

AMENDED AND RESTATED AS OF JANUARY 1, 2003

EFFECTIVE AS OF JANUARY 1, 1991



BIG LOTS, INC.  
SUPPLEMENTAL SAVINGS PLAN

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BIG LOTS, INC.

SUPPLEMENTAL SAVINGS PLAN

PURPOSE

The purpose of this nonqualified deferred compensation plan is to promote the success of BIG LOTS, INC. (the "Company") and any of its Affiliates that adopt the plan, (now known as the Big Lots, Inc. Supplemental Savings Plan (the "Plan")), by providing a means for certain highly compensated employees to defer compensation.

CONCEPT

The Plan is designed to provide Participants with a supplemental vehicle through which to defer compensation and related Matching Employer Contributions (if applicable) in a manner substantially similar to deferrals made pursuant to elections under the Company's tax-qualified 401(k) plan, as well as to defer bonuses (if any) for the Plan Year that have not as yet been determined and paid to the Participant.

The Plan is intended and designed to coordinate with the Company's tax-qualified 401(k) plan in a manner consistent with the intent of the Company as described below. All contributions permitted by law and applicable regulations governing the 401(k) plan shall be made and deferred to such 401(k) plan, and all contributions deferred to this Plan shall be made (without regard to the deferrals made with respect to the 401(k) plan) and shall be treated as an unfunded contribution. In no event, however, may any Participant in this Plan defer an aggregate amount of compensation in excess of one hundred percent (100%) of the Participant's total compensation.

This Plan is a non-funded, supplemental executive deferred compensation plan structured to benefit Participants in a manner that provides incentive to improve profitability, competitiveness and growth of Big Lots, Inc. and its Affiliates who are participating Employers in this Plan.

EFFECTIVE DATE

The Plan as evidenced by this document shall first become effective as of January 1, 2003, and is an amendment and restatement of the Plan originally effective as of January 1, 1991 and as last amended and restated on November 16, 1992, as amended from time to time.

The plan, originally known as the Consolidated Stores Corporation Supplemental Savings Plan, has been amended to change the name of the Plan due to a change in the name of the Company, as well as to make certain administrative changes; namely, that this Plan is no longer coordinated with the Company's tax-qualified 401(k) plan by accepting contributions that are legally deemed to be in excess of the limitations imposed under Sections 401(k), 402(g), and 415 of the Internal Revenue Code (the "Code"); but, rather a separate and distinct nonqualified deferred compensation plan that accepts contributions deemed in excess of the tax-qualified 401(k) plan limitations described hereof.

ARTICLE I  
PARTICIPATION

SECTION 1.1 - ELIGIBILITY

Only those Associates of the Employer who are considered Highly Compensated Employees, as that term is defined under Section 414(q) of the Code, as amended from time to time, shall be eligible to participate in this Plan as of the first date of employment with the Employer, but only to the extent participation in this Plan is made available to said Associates by the Committee in its sole and final discretion. Notwithstanding, all Associates who were eligible to participate and who were participating in the Plan as of January 1, 2003 of this amended and restated Plan shall to continue to participate in the Plan on and after said date.

SECTION 1.2 - CONDITIONS OF PARTICIPATION

An Associate shall not become a Participant herein until he or she furnishes within a reasonable time limit established by the Committee, such completed and executed elections, Beneficiary designations, consents and other documents and information prescribed by the Committee. Each person upon becoming a Participant shall be deemed conclusively, for all purposes, to have assented to the terms and provisions of this Plan, and shall be bound thereby. Provided, however, that certain restrictions shall apply to those Employees who constitute "Officers" or "Directors" of Big Lots, Inc. within the meaning of Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act"), and attending regulations as adopted and interpreted by the Securities and Exchange Commission as they relate to investments (if any) in Employer Securities.

SECTION 1.3 - ELECTION TO DEFER

- (a) Except within the thirty (30)- day period following the date the Plan is initially extended to a Participant, the election to participate in and have Compensation deferred under the Plan must be made before the beginning of the period of service for which any Compensation upon which contributions to this Plan are based is earned. For purposes of this Plan, Compensation shall also include bonus amounts that may be attributable to service for the Employer prior to the effective date of said election by the Participant, but as not as yet determined and paid as of the effective date of said election.
- (b) For each subsequent Plan Year, a Participant may amend his or her existing elections, in writing in a new Deferral Agreement, prior to December 31 of such year, in a manner and to the extent to which the Participant's Compensation with respect to such subsequent Plan Year shall be deferred hereunder. An election by a Participant that has not been amended pursuant to this Section 1.3(b) shall be deemed to be a new election for the subsequent Plan Year.
- (c) A Participant who has made an effective election as to the deferral of Compensation for a Plan Year, may not change that election after the Plan Year has commenced; provided, however, that the deferral under any Deferral Agreement may be suspended or amended as provided in Section 6.5.
- (d) The minimum annual amount which a Participant shall be eligible to elect to have deferred under this Plan for the Plan Year shall not be less than \$1,000.

#### SECTION 1.4 - MATCHING COMPANY CONTRIBUTIONS

Each participating Employer shall cause matching contributions to be credited to a Participant's account under this Plan, to the extent determined by the Board of Directors of the Company and in an amount as the Board, in its sole discretion, determines to be appropriate. Employer Contributions, if any, shall vest according to the same schedule to which they would vest for a Participant under the provisions of the Company's tax-qualified 401(k) savings plan, namely:

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

#### SECTION 1.5 - DEFERRED ACCOUNTS

All Compensation deferred under the Plan and any Matching Employer Contributions, if any, shall be credited to the Participant's Deferred Account in the same manner as though contributed as permissible salary deferrals or matching contributions to the tax-qualified 401(k) plan. Separate Deferred Accounts shall be created and maintained by the Committee for each Participant to reflect the appropriate allocation of deferred Compensation and Employer Matching Contributions to the accounts and investment funds maintained for the Participant. Such accounts and investment funds shall be established solely for recordkeeping purposes, shall not be required to be informally or formally funded or held in specific investments or as separated assets and shall meet all of the requirements of Section 6.2 hereof as pertinent to nonfunded, nonqualified deferred compensation plans. Credits and charges shall be made to the Deferred Accounts in the following manner.

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 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 Deferred Account.

To extent authorized by the Board of the Company, a Participant shall have the authority to make investment elections with respect to such Deferrals and any Matching Employer Contributions on behalf of and for the benefit of the Company or participating Employer in a manner as prescribed by the Committee, including but not limited to electronic and telephonic means. Such investment authority, however, shall not give ownership rights to the Participant of his or her Deferred Account(s), but said Deferred Account(s) shall continue to be owned and held in the name of the Company or participating Employer and subject to creditors' rights as described in Section 7.2 of this Plan.

#### SECTION 1.6 - STATEMENT OF ACCOUNTS

The Committee shall cause to be provided to each Participant (or Beneficiary as applicable), as soon as practical after the close of each calendar quarter, a statement in such form as the Company deems desirable, setting forth the current Plan's Deferred Accounts in a manner similar to that provided in the Company's tax-qualified 401(k) plan.

## ARTICLE II

### BENEFIT DISTRIBUTIONS FROM THE PLAN

#### SECTION 2.1 - FORM OF DISTRIBUTION

Distributions from the Plan shall be administered and made in a single sum cash settlement or in kind for all Participants in the Plan, provided that insiders subject to Section 16 of the Investment Company Act of 1934, as amended, shall receive their distribution in a manner that complies with the requirements of the Investment Company Act of 1934. An election by the Participant as to the form of distribution under this Plan shall be made not later than six (6) months prior to the projected date of distribution. Any change by the Participant as to the form of distribution shall not become effective for a period of six (6) months from the date the Committee is notified of the Participant's intent as to form of distribution. In no event, however, shall a distribution from this Plan be made prior to the date the Participant's employment with the Company or a Employer terminates (by retirement, death, or otherwise), except as provided in Section 2.2 hereof.

#### SECTION 2.2 - ACCELERATION OF BENEFIT PAYMENTS

The Committee, with approval of the Board, hereby reserves the right to accelerate the payment of distributions, without the consent of the Participant or the Participant's Beneficiary(ies), estate or any other person or persons claiming through or under the Participant. In making such determination, due consideration may be given to the health, financial circumstances and family obligations of the Participant or Beneficiary (ies), as applicable. In this regard, the Participant (or applicable Beneficiary(ies)) may be consulted; however, they shall have no voice in the decision reached. The determination of the Committee shall be final and conclusive upon the Company, participating Employer, the Participant and the Beneficiary(ies).

#### SECTION 2.3 - WITHHOLDING & PAYROLL TAXES

To the extent required by law in effect at the time benefit payments are made hereunder, the applicable Employer shall withhold from payments made hereunder any taxes required to be withheld from an employee's wages. Determinations by the Committee as to withholding shall be binding on the Participant and applicable Beneficiary(ies).

#### SECTION 2.4 - BENEFICIARY DESIGNATION

Each Participant may from time to time designate any person or persons (who may be designated contingently or successively and who may be an entity other than a natural person) as their Beneficiary or Beneficiaries to whom Plan benefits are paid if the Participant dies before receipt of all such benefits. Such Beneficiary designation(s) shall not be subject to the surviving spouse limitations/requirements applicable to tax-qualified retirement plans. Each Beneficiary designation shall be filed in the written form prescribed by the Committee and will be effective only when filed with the Committee during the Participant's lifetime. Each written Beneficiary designation filed shall cancel all Beneficiary designations previously filed with the Committee. A Participant may revoke a Beneficiary designation only by filing with the Committee, during the Participant's lifetime, either a superseding

Beneficiary designation, or such other writing in a form and manner prescribed by the Committee. The revocation of a Beneficiary designation shall not require the consent of the designated Beneficiary(ies).

If any Participant is not survived by a Beneficiary as designated above, any death benefit payable hereunder shall 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 secondary Beneficiary appointed by the Participant, or such secondary Beneficiary has also died. If such a surviving Beneficiary dies before receiving the entire death benefit and has not designated a Beneficiary (or such Beneficiary has died), the remainder of such benefits shall be paid to the executor or administrator of such Beneficiary's estate.



## ARTICLE III

### WITHDRAWALS

#### SECTION 3.1 - HARDSHIP WITHDRAWALS

Participants may elect to withdraw all or a part of their vested Deferred Accounts but only for purposes of an unforeseen financial emergency that cannot be satisfied through other means. "Unforeseen Financial Emergency" shall mean those types of events that are not reasonably foreseeable, and are reasonably unavoidable through taking other measures (i.e., medical emergency or natural disaster). All such determinations shall be made by the Committee in its sole and final discretion. Before any withdrawal for hardship may be made by any Participant, the Participant must establish to the Committee's reasonable satisfaction that liquidation of other assets or the exercise of other alternatives are unavailable or insufficient to satisfy the emergency need. Prior to any Hardship Withdrawal under the Plan, the Participant must first exercise a Hardship Withdrawal under the Company's tax-qualified retirement 401(k) plan to the extent the Participant is a participant with an individual account in said plan.

#### SECTION 3.2 - WITHDRAWAL PROCEDURES

The Committee shall from time to time adopt the necessary procedures to be followed in the event a Participant seeks to elect a Hardship Withdrawal. All procedures instituted by the Committee shall be binding upon the Participant.

## ARTICLE IV

### COMMITTEE

#### SECTION 4.1 - COMMITTEE

The retirement committee of the Company's tax-qualified 401(k) plan shall be the Committee of this Plan in accordance with the intention of the Board, as expressed herein.

#### SECTION 4.2 - COMMITTEE PROCEDURES

A committee member who at any time hereunder is a Participant shall not have any vote in any decision under the Plan made primarily with respect to such committee member or such member's or administrator's benefits hereunder. In this event, the decision shall be made by a majority of the committee member's or if the Plan is administrated by one individual, then by the Board.

All actions of the Committee shall be by majority vote and may be taken with or without a meeting. If taken without a meeting, the action shall be in writing and signed by a majority of the members.

In the event of any disagreement among the Committee members at any time acting hereunder and authorized to act with respect to any matter, the decision of the majority of said Committee members shall be controlling and shall be binding and conclusive upon the Committee, the Participants, and their Beneficiaries and upon the respective successors, assigns, executors, administrators, heirs, next-of-kin and distributees of all the foregoing.

Subject to the provisions of this Section 4.2, each additional and each successor Committee member at any time acting hereunder shall have all of the rights and powers (including discretionary rights and powers) and all of the privileges and immunities hereby conferred upon the initial Committee members hereunder, and all of the duties and obligation so imposed upon the initial Committee members hereunder.

Except as otherwise may be required by any applicable law, no Committee member at any time acting hereunder shall be required to give any bond or other security for the faithful performance of duties as such Committee member.

## ARTICLE V

### ADMINISTRATION

#### SECTION 5.1 - ADMINISTRATIVE POWERS AND DUTIES

The Board of Big Lots, Inc. shall designate such officer(s) of the Company to be the authorized administrator of the Plan and to have the primary administrative responsibility with respect to the Plan in coordination with and under the direction of a Committee. The administrator shall serve at the pleasure of the Board and the Committee and shall administer the Plan and all policy and administrative functions shall be the full and total responsibility of the administrator who shall perform said functions under the direction of the Committee. The administrator shall interpret the provisions of the Plan where necessary and may adopt procedures for the administration of the Plan that are consistent with the provisions of the Plan.

The Committee may retain auditors, accountants, recordkeepers, legal counsel, consultants and other counsel to assist in the administration of the Plan. Such auditors, counsel, etc. may be persons acting in a similar capacity for the Company or an Employer and may be associates of the Company or an Employer. The opinion or any such counsel shall be full and complete authority and protection in respect to any action taken, suffered or omitted by the Committee or administrator designated by the Board in good faith and in accordance with such opinion.

#### SECTION 5.2 - EXPENSES & TAXES

The Company and/or applicable Employer shall pay the reasonable expenses incurred by the Committee and others performing services relative to the administration of the Plan, including the fees and compensation of the persons referred to in Section 5.1.

And gains or losses attributable to the Deferred Account(s) of the Participants shall be gains or losses attributable to the Company and shall be income to the Company; provided, however, that any taxes paid by the Company, by reason of inclusion of gains in income of the Company under this subparagraph, may at the sole and final discretion of the Company be debited against the Participants' Deferred Accounts in a fair and equitable manner as determined by the Committee.

#### SECTION 5.3 - RECORDS

The Company, applicable Employers and the Committee shall each keep such records and shall each give reasonable notice to the other of such information, that shall be proper, necessary or desirable to effectuate the purposes of the Plan, including, without in any manner limiting the generality of the foregoing, records and information with respect to deferral elections, Deferred Accounts, dates of employment and terminations, and determinations made hereunder. In addition, the Company, the Employer and the Committee shall be protected in acting upon any notice or other communication purporting to be signed by any person and reasonable believed to be genuine and accurate, including the Participant's current mailing address.

#### SECTION 5.4 - DETERMINATIONS

All determinations hereunder made by the Company or the Committee shall be made in the sole and absolute final discretion of the Company or of the Committee, as the case may be.

In the event that any disputed matter shall arise hereunder, including, without in any manner limiting the generality of the foregoing, any matter relating to the eligibility of any person to participate, the participation of any person, the amount payable to any person, and the applicability and the interpretation of the provisions of the Plan, the decision of the Committee upon such matter shall be binding and conclusive upon the Company, the Committee, the Participant, and Beneficiary(ies) and their successors, assigns, heirs and distributees of all the foregoing.

#### SECTION 5.5 - LEGAL INCOMPETENCY

The Committee may direct payment either directly to an incompetent or disabled person, whether because of minority or mental or physical disability, or to the guardian of such person, or to the person having custody, without further liability on the part of the Company, Employer, Committee, or any person, for the amounts of such payment to the person on whose account such payment is made.

#### SECTION 5.6 - ACTION BY THE COMPANY

Any action by the Company or applicable Employer under this Plan may be by resolution of the Board of Directors, or by an person(s) duly authorized by resolution of said Board to take such action(s).

#### SECTION 5.7 - EXEMPTION FROM LIABILITY/INDEMNIFICATION

The Committee shall be free from all liability, for acts, omissions and conduct, and for the acts, omissions and conduct of duly appointed agents, in the administration of the Plan, except for those acts or omissions and conduct resulting from willful misconduct and gross negligence.

The Company shall indemnify the Committee and any other Associate, officer or director of the company or applicable Employer against any claims, loss, damage, expense and liability, by insurance or otherwise, reasonably incurred by the individual in connection with any action or failure to act by reason or membership on a committee or performance of an authorized duty or responsibility for or on behalf of the Company or applicable Employer pursuant to the Plan unless the same is judicially determined to be the result of the individual's willful misconduct or gross negligence. Such indemnification by the Company shall be made only to the extent such expense or liability is not payable to or on behalf of such person under any liability insurance coverage. The foregoing right to indemnification shall be in addition to any other rights to which any such person may be entitled as a matter of law.

#### SECTION 5.8 - NONALIENATION OF BENEFITS

Except as otherwise provided by law, no benefit, payment or distribution under the Plan shall be subject either to the claim or any creditor of a Participant or Beneficiary(ies), or to attachment, garnishment, levy, execution or other legal or equitable process, by any creditor of such person, and no such person shall 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.

The Plan shall not in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to benefits hereunder.

In the event that 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 as it deems proper at the close of said action.

## ARTICLE VI

### INCLUSION AND WITHDRAWAL OF EMPLOYERS

#### SECTION 6.1 - INCLUSION OF EMPLOYERS

Any Employer which is a Employer (as that term is defined in Section 414 of the Code, as amended from time to time) and which is authorized by the Board of Directors of Big Lots, Inc. to participate in the Plan as a Employer may elect to participate by action of its own Board of Directors (or other managing body) and by entering into a Joinder Agreement, a copy of which is attached hereto as Exhibit A.

#### SECTION 6.2 - WITHDRAWAL OF EMPLOYERS

Big Lots, Inc. may, at any time in its sole discretion, determine to exclude any Employer from the Plan. Any Employer may similarly elect to discontinue its participation in this Plan at any time after the expiration of the sixty (60)-day period immediately following the receipt of the Committee of the Employer's written notice of its intent to so withdraw.

The exclusion or withdrawal of a participating Employer from the Plan shall not adversely affect the administration of amounts already credited to the Deferred Account(s) under the Plan of Participants employed by such Employer, with respect to which amounts the Plan shall be continued until all such amounts under the Plan have been paid by the Employer or otherwise liquidated under applicable law or judicial judgment.

#### SECTION 6.3 - SALE OR LIQUIDATION OF EMPLOYERS

In the event Big Lots, Inc. should sell or otherwise directly or indirectly dispose of sufficient interest in an Employer so that it no longer owns 50% of such company, or an Employer is liquidated, Big Lots, Inc. shall assume and guarantee payment of such Employer's remaining deferred compensation obligations under this Plan.

#### SECTION 6.4 - TRANSFER BETWEEN PARTICIPATING EMPLOYERS

In the event that a Participant's employment is transferred from one participating Employer to another, the transfer shall not adversely affect the administration of amounts then credited to the Deferred Account(s) of such Participant on or as of the date of transfer and the Participant's prior participating Employer shall remain obligated to pay such deferred benefits in accordance with the provisions of the Plan in effect prior to the date of such transfer. The Participant's new participating Employer shall become obligated under the terms of the Plan to pay any deferred compensation amounts credited to the Participant's Deferred Account(s) upon and after said date of transfer.

## ARTICLE VII

### MISCELLANEOUS PROVISIONS

#### SECTION 7.1 - EMPLOYMENT AND OTHER RIGHTS

Nothing contained herein shall require Big Lots, Inc. or any Employer to continue any Participant in its employ, or any Employer, nor does the Plan create any rights of any Participant or Beneficiary or any obligations on the part of the Company or any Employer other than those set forth herein. The benefits payable under this Plan shall be independent of, and in addition to, any other employment agreements that may exist from time to time concerning any other Compensation or benefits payable by the Company.

#### SECTION 7.2 - RIGHT TO BENEFITS

The sole interest of each Participant and each Beneficiary under this Plan shall be to receive the deferred Compensation benefits provided herein as and when the same shall become due and payable in accordance with the terms hereof and applicable elections hereunder and neither any Participant nor any Beneficiary shall have any right, title or interest (legal or equitable) in or to any of the specific property or assets of Big Lots, Inc. or any participating Employer. All benefits hereunder shall be paid solely from the general assets of Big Lots, Inc. or applicable Employer and no Employer shall maintain any separate fund or other separated assets to provide any benefits hereunder. In no manner shall any property or assets of Big Lots, Inc. or any Employer be deemed or construed through any of the provisions of this Plan to be held in trust for the benefit of any Participant or designated Beneficiary(ies) or to be collateral security for the performance of the obligations imposed by this Plan on the Company or any participating Employer. The rights of any Participant hereunder and any Beneficiary of the Participant shall be solely those of an unfounded and unsecured creditor in respect to the promise of the Company or any participating Employer, as applicable, to pay benefits in the future.

#### SECTION 7.3 - OFFSETS TO BENEFITS

Notwithstanding any provisions of the Plan to the contrary, the Company or any Employer may, or the Committee may, in its sole and absolute final discretion determine, offset any amounts to be paid to a Participant under the Plan against any amounts which such Participant may owe to such Employer.

#### SECTION 7.4 - AMENDMENT AND TERMINATION

While the Company and participating Employers intend to continue this Plan indefinitely, the Plan may be amended, suspended or terminated at any time by the Board of the Company; provided, that no such amendment, suspension or termination shall adversely affect the administration of amounts already credited to Deferred Accounts under the Plan, with respect to which amounts the Plan shall continue until all deferred Compensation and applicable Matching Employer Contributions (if any) credited to Deferred Accounts under the Plan have been paid. In the event it should be determined for any reason by an applicable agency of the federal government or by any court of competent jurisdiction that the Plans does not satisfy the exclusions of Section 201(2), Section 301(a)(3) and Section 401(a)(1) of ERISA, the Plan

shall be deemed terminated as of the date of such determination unless alternative action by the Board of the Company is taken.

#### SECTION 7.5 - CHANGE IN CONTROL

In the event a "Change in Control" of the Company occurs, the Committee may effect immediate lump sum payment of the Deferred Accounts (whether or not vested) under the Plan to applicable Participants. For the purpose of this Section, a "Change in Control" shall mean any of the following events:

- (a) any person or group (as defined in Section 13 of Exchange Act) other than Company or any of its Employers becomes the beneficial owner of, or has the right to acquire (by contract, option, warrant, conversion of convertible securities or otherwise), twenty percent (20%) or more of the outstanding equity securities of BIG LOTS, INC. entitled to vote for the election of directors;
- (b) a majority of the Board of Directors of the Company is replaced within any period of two (2) years or less by directors not approved by the majority of the directors of the Company in office at the beginning of such period, or a majority of the Board of Directors of the Company at any date consists of persons not so approved;
- (c) the stockholders of the Company approve an agreement to merge or consolidate the Company with another company other than the Company or a Employer or an agreement to sell or otherwise dispose of all or substantially all of the assets to an entity other than the Company or a Employer thereof.



## ARTICLE VIII

### DEFINITIONS

For the purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

#### SECTION 8.1 - ASSOCIATE

"Associate" means an individual who is currently employed by the Company or Employer.

#### SECTION 8.2 - BENEFICIARY

"Beneficiary" means the person, persons, or entity designated by the Participant to receive any benefits payable under the Plan pursuant to Article II.

#### SECTION 8.3 - BOARD

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

#### SECTION 8.4 - CHANGE IN CONTROL

"Change in Control" means the change in control of the Company as described in Section 7.5 of the Plan.

#### SECTION 8.5 - CODE

"Code" means the Internal Revenue Code of 1986, as amended by time to time.

#### SECTION 8.6 - COMMITTEE

"Committee" means that person or persons appointed by the Company to represent the Company in the administration of this Plan pursuant to the provisions of Article IV.

#### SECTION 8.7 - COMPANY

"Company" means BIG LOTS, INC.

#### SECTION 8.8 - COMPENSATION

"Compensation" means the total remuneration paid to an individual (including but not limited to bonuses) in a Plan Year.

#### SECTION 8.9 - DEFERRAL AGREEMENT

"Deferral Agreement" means an agreement filed by a Participant to effect deferrals of Compensation hereunder.

#### SECTION 8.10 - DEFERRED ACCOUNT(s)

"Deferred Account(s)" means the accounts maintained by the Committee for each Participant pursuant to Article I. Separate Deferred Accounts shall be maintained for each Participant; however, more than one Deferred Account may be maintained as necessary to reflect the nature of the account and various fund allocations of the Participant. A Participant's Deferred Account(s) shall be utilized solely as a device for the measurement and determination of the amounts to be paid to or on behalf of a Participant pursuant to this Plan provided, however, that such Deferred Account(s) shall not constitute or be treated as a trust fund of any kind nor be deemed a funding arrangement under the Code or ERISA.

#### SECTION 8.11 - EMPLOYER

"Employer" means the Company and/or a participating Employer or any successor to the business thereof. For purposes of determining an Employer or Employer, the rules of Section 414 of the Code shall govern.

#### SECTION 8.12 - EMPLOYER SECURITIES

"Employer Securities" means those securities (or common stock) of the Company as currently traded on a nationally recognized stock exchange.

#### SECTION 8.13 - ERISA

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

#### SECTION 8.14 - HIGHLY COMPENSATED EMPLOYEE

"Highly Compensated Employee" means an individual (as defined in Section 414(q) of the Code) who is employed by the Company or Employer.

#### SECTION 8.15 - MATCHING EMPLOYER CONTRIBUTIONS

"Matching Employer Contributions" means contributions (if any) made by the Employer pursuant to the terms of this Plan. Any Matching Employer Contributions shall be made at the sole and final discretion of the Board of the Company.

#### SECTION 8.16 - PARTICIPANT

"Participant" means any Highly Compensated Employee who becomes a participant pursuant to Section 1.1 of this Plan and who then elects to participate in the Plan as described in Article I.

#### SECTION 8.17 - PLAN YEAR

"Plan Year" means a full twelve (12)- month period beginning each January 1 (the calendar year).

ARTICLE IX

GENERAL PROVISIONS

SECTION 9.1 - ERISA STATUS

This Plan shall constitute a plan, which is unfunded, and which is maintained primarily for the purpose of providing deferred compensation benefits for a group of Highly Compensated Associates of the Company or Employer.

SECTION 9.2 - CONSTRUCTION

In the construction of the Plan, the masculine shall include the feminine and the singular shall include the plural in all cases where such meanings would be appropriate.

SECTION 9.3 - CONTROLLING LAW

The law of the state of the Company's incorporation shall be the controlling state law in all matters relating to the Plan and shall apply to the extent that it is not preempted by the laws of the United States of America.

SECTION 9.4 - EFFECT OF INVALIDITY OF PROVISION

If any provision of this Plan is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and this Plan shall be construed and enforced as if such provision had not been included.

IN WITNESS WHEREOF, this Plan has been executed on behalf of the Company by its duly appointed officer this 26th day of March, 2004.

BIG LOTS, INC.

By: /s/ Albert J. Bell

-----  
Title: Vice Chairman & Chief Administrative Officer

BIG LOTS, INC.

SUPPLEMENTAL SAVINGS PLAN

THIS AGREEMENT (the "Agreement"), made as of this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, between BIG LOTS, INC. (the "Company") and \_\_\_\_\_ ("Employer"):

WITNESSETH:

WHEREAS, Employer wishes to adopt the Plan for the benefit of certain of its Highly Compensated Employees; and

WHEREAS , the Board of Directors of the Company has approved the execution of this Agreement pursuant to Section 5.1 of the Plan;

NOW, THEREFORE, BE IT RESOLVED THAT:

- (a) Employer hereby adopts the Plan and all amendments now or hereafter made thereto and expressly covenants and agrees that, respecting any of its Associates who are eligible to become participants, it shall maintain such records as necessary under the Plan and shall pay according to the terms of the Plan all benefits accrued thereunder in respect to periods of employed with the Employer.
- (b) The Company hereby consents to such adoption by the participating Employer, effective as of \_\_\_\_\_, 20\_\_\_\_.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

BIG LOTS, INC.

BY: \_\_\_\_\_

\_\_\_\_\_  
EMPLOYER

BY: \_\_\_\_\_

BIG LOTS, INC.

SUPPLEMENTAL SAVINGS PLAN

PARTICIPATION AND DEFERRAL AGREEMENT

I hereby elect to participate in the BIG LOTS, INC. Supplemental Savings Plan (the "Plan") and agree to the terms and provisions of the Plan and shall be bound thereby. I make the following elections and designations with respect to my Plan participation for the calendar year ending December 31, 20\_\_ and for each calendar year thereafter:

- (a) I elect, pursuant to Article I of the Plan, to defer receipt of compensation in the amount of \$\_\_\_\_\_ or \_\_\_\_\_% (not to exceed 50% of my total remuneration) per pay period.
- (b) I further elect that \_\_\_\_\_% of my bonus (not to exceed 100%), if any, for the 20\_\_ calendar year, and for each calendar year thereafter, be deferred to my Deferral Account. I understand that this election can only be made prior to the Company's determination of any bonus for the calendar year.
- (c) I direct that distribution of amounts in the Plan effected through this election be payable to me in the form of

\_\_\_\_\_ lump sum distribution  
\_\_\_\_\_ in kind distribution  
\_\_\_\_\_ combination of above as elected by me

I understand that the amounts deferred in accordance with my election hereunder, will be administered on an unfounded basis by the Committee, and that my rights and those of my Beneficiary(ies) shall be as those of an unsecured creditor of BIG LOTS, INC. I acknowledge that the BIG LOTS, INC. Supplemental Savings Committee (the "Committee") reserves the right to accelerate payment of deferred amounts under the Plan.

I further understand that my right to designate investments for amounts deferred do not in any way confer ownership rights to those deferred amounts; and, that ownership of the amounts deferred remain with BIG LOTS, INC.

I hereby designate that my Deferral Account be invested in the following manner:

_____	_____%	_____	_____%
_____	_____%	_____	_____%
_____	_____%	_____	_____%
_____	_____%	_____	_____%

This Deferral Agreement and Beneficiary Designation set forth below is subject to all the terms and conditions of the Plan, shall only become effective when it has been approved and accepted by the Committee, and shall remain in effect with respect to such Agreement and

Beneficiary Designation unless before the commencement of any such calendar year, a new or amended Agreement and/or Designation is filed and accepted or the elective effective through this form is canceled on a form approved by the Committee.

BENEFICIARY DESIGNATION

I hereby designate the following Beneficiary(ies) to receive any and all death benefits to which they may be entitled under the terms of the Plan.

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I hereby revoke any prior elections or designations under the BIG LOTS, INC. Supplemental Savings Plan. I understand that the elections and designations specified above shall remain in effect until and unless I effectively amend them in accordance with procedures prescribed by the Committee or terminate my participation in the Plan prior to the beginning of the applicable calendar year.

Dated: \_\_\_\_\_, 2\_\_\_\_. By:\_\_\_\_\_

\_\_\_\_\_  
Print Name

Committee Action:

The above Agreement, Investment Election, and Beneficiary Designation is:

- ( ) Approved and Accepted
- ( ) Not approved, for the following reason(s):

Dated:\_\_\_\_\_ , 2\_\_\_\_. By:\_\_\_\_\_ Committee

BIG LOTS, INC.

SUPPLEMENTAL SAVINGS PLAN

PARTICIPATION CANCELLATION ELECTION

Through an appropriate Deferred Agreement, I previously elected to defer receipt of compensation through participation in the BIG LOTS, INC. Supplemental Savings Plan.

I hereby elect to cancel any further deferrals through the Plan effective with the 2\_\_\_\_calendar year. I understand that this cancellation will become effective with the January 1 of the calendar year immediately following the date of this Participation Cancellation Election.

Dated: \_\_\_\_\_, 20\_\_\_\_.

By: \_\_\_\_\_

\_\_\_\_\_  
Print Name

Committee Acknowledgement:

The above Participation Cancellation Election has been received on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, effective for the 20\_\_\_\_ calendar year.

By: \_\_\_\_\_

Committee

BIG LOTS, INC.

BOARD OF DIRECTORS' RESOLUTIONS

WHEREAS, the Board of Directors of BIG LOTS, INC. (the "Company") wishes to promote the success of the Company and its affiliates; and

WHEREAS, the Board wishes and desires to provide a means for certain Highly Compensated Employees to continue to defer compensation; and

WHEREAS, the Board currently maintains a nonqualified deferred compensation arrangement that provides certain Highly Compensated Employees the means to defer compensation, and wishes to make certain administrative changes to the plan and to change the name of the plan to the Big Lots, Inc. Supplemental Savings Plan;

NOW, THEREFORE, BE IT RESOLVED THAT BIG LOTS, INC. does hereby amend and restate its nonqualified deferred compensation arrangement (hereinafter to be referred to as the "Big Lots, Inc. Supplemental Savings Plan), effective as of January 1, 2001, and to make certain administrative changes to the Plan;

FURTHER RESOLVED THAT the Board of Directors of BIG LOTS, INC. shall in its sole and final discretion continue to determine the eligibility requirements to be met by certain Highly Compensated Employees to become participants in the above-named plan;

FURTHER RESOLVED THAT the Board of Directors shall delegate to its executive officers the power and responsibility to take whatever action or actions are deemed necessary and appropriate by them to carry out the purpose and intent of these Resolutions.

Signed and dated this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

BIG LOTS, INC

BY: \_\_\_\_\_

ITS: \_\_\_\_\_

(TITLE)



BIG LOTS STORES, INC.  
DEFINED BENEFIT PENSION PLAN

AS AMENDED AND RESTATED  
Effective January 1, 1997, with further  
amendments through January 1, 2002

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BIG LOTS STORES, INC. DEFINED BENEFIT PLAN

Effective as of September 17, 1974, Consolidated Stores Corporation (the "Company"), formerly known as Consolidated International, Inc., 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 and again as of January 1, 1989, each amendment and restatement being a continuation of the original Plan.

Effective as of January 1, 1997, the Company adopted 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.

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 Code 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, 1997. 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), Schedule IV (Limitations on Predecessor Employment), 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.

The following factors will be applied to calculate the amount of any lump sum:

- (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.

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 6.3, 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 in effect at the time in respect to which such term is used.

#### Section 1.8 - Committee

The Retirement Committee provided for in Article IX of this Plan.

#### Section 1.9 - Company

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



## 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 may 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

January 1, 1997, 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). 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

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

Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as in effect at the time in respect to which such term is used.

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.

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 this Section and 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 and 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
- (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 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.

(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
- (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, 1997 will continue to participate in accordance with the provisions of this amended and restated Plan.
- (b) 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.

## 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 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 Schedules IV and V, 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 Schedules IV and V, 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 Schedules IV and V, 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 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 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).

## 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.

#### Section 4.4 - Disability Pension

- (a) Disability for purposes of this Plan will mean a physical or mental condition 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 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.

## 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 III, 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.

In no event, however, 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, however, 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 III, 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 III, 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 III, 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 III, 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 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.

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:

Years of Service -----	Vested Percentage -----
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 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.

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.

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 (70-1/2) 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.

## 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 the Participant has been continuously married for a period of at least twelve (12) months 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 to a waiver must be witnessed by a plan representative or notary public and must be limited to a benefit 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.

- (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(b), 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.

#### 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.

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. 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

Except as may otherwise be provided in Schedule III, 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. However, nothing contained in this Plan or the Trust Agreement by which it is implemented will be deemed to require any Employer to make contributions under this Plan, and no Employer will be under any legal obligation to contribute to this Plan. 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 available on a termination basis to the extent required to satisfy liabilities, if any, under this Plan which arise from such other employee benefit plan.

## 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 the Trustee, members of the Committee, any Investment Manager, and to amend or terminate, in whole or in part, this Plan or 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 a Retirement Committee consisting of at least three (3) persons who will be appointed by the Chief Executive Officer of the Company, with the approval of the Board, and will continue to serve at the pleasure of the Board. 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 by written resignation 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;
- (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 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 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 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).

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 such other amount as may, by regulations of the Secretary of the Treasury, be established as the maximum amount that may be paid out without the Participant's consent, 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 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 as respects 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



- (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).

## 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.

### 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 and adopted this 28th day of June, 2003.

BIG LOTS STORES, INC.

(Corporate Seal)

By: /s/ Albert J. Bell

/s/ Charles W. Haubiel II

-----  
Title: Vice Chairman

-----  
Attest:

Vice President, General  
Counsel & Secretary  
Title:

## 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 basis for purposes of applying the above limitation.
- (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:
- (i) 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
  - (ii) 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 before 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.
- (b) 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 an interest rate equal to the lesser of five percent (5%) or the rate determined in Section 1.1 of the Plan. 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.
- (c) 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.
- (d) 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.

- (e) 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.



### 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.

### 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, amounts deferred under Code Sections 401(k), 125 and 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

This Schedule III lists all participating Employers, indicating their date of participation and any special provisions which may be applicable. Section 1 applies to participating Employers as of the Effective Date. A new section will be added with respect to each participating Employer, or group of participating Employers, adopting the Plan as of a date subsequent to the Effective Date.

#### Section 1 - Participating Employers as of the Effective Date

Employer -----	Date of Participation -----	Special Provisions -----
Consolidated Stores International Corporation	09/17/74	None
C. S. Ross Company	01/01/90	None

## SCHEDULE IV

### TOP-HEAVY PROVISIONS

#### IV1.01 - Application

The provisions of this Schedule IV will apply only if the Plan becomes "top-heavy" (as defined in Section 416(g) of the Code), 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 Sections 401(a)(4) or 410(b) of the Code ("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 Section 401(a) and 410 of the Code ("permissive aggregation group").

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). 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 Section 416(g) of the Code. 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 Section 412 of the Code 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.

#### IV1.02 - 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 IV1.02, in lieu of the vesting schedule contained in Article V.

#### IV1.03 - 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.

#### IV1.04 - 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.

#### IV1.05 - Key Employee and Non-Key Employee Defined t

The term key employee will have the same meaning as is specified in Section 416(i)(1) of the Code, 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 Section 415(b)(1)(A) of the Code

for 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 Participant, 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.

BIG LOTS, INC.  
SAVINGS PLAN AND TRUST

AMENDED AND RESTATED

EFFECTIVE

JANUARY 1, 1999

BIG LOTS, INC.  
SAVINGS PLAN AND TRUST

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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 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 is now 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 changed its name to Big Lots, Inc. and Big Lots, Inc. is hereby referred to as the "Company" and the plan is hereby referred to as the Big Lots, Inc. Savings Plan and Trust.

This Plan and Trust 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 and Trust 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 Redirection 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 the Company.

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 and revised from time to time.

1.10 Committee means the Committee provided for in Article XI hereof.

1.11 Company means Big Lots, Inc. (formerly, Consolidated Stores Corporation) 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 Section 401(a)(17) 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, 1999, the Effective Date of this amended and restated Plan.
- 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 means, collectively or individually as the context may indicate, the Company 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 performs service for the



Company or an Affiliate during the determination year, and who, during the look-back year: (i) received compensation from the Company or an Affiliate in excess of \$75,000 (as adjusted pursuant to Section 415(d) of the Code; (ii) received compensation from the Company or an Affiliate in excess of \$50,000 (as adjusted pursuant to Section 415(d) of the Code and was a member of the group consisting of the top twenty percent (20%) of Associates of the Company and its Affiliates when ranked on the basis of compensation for such year (the "top paid group"); or (iii) was an officer of the Company or an Affiliate and received compensation during such year that is greater than 50 percent of the dollar limitation in effect under Section 415(b)(1)(A) of the code. The term Highly Compensated Employee also includes (i) Associates who are both described in the preceding sentence if the term "determination year" is substituted for the term "look back year" and who are one of the 100 Associates who received the most compensation from the Employer during the determination year; and (ii) Associates who are 5 percent or more owners at any time during the look back year or the determination year. If no officer has satisfied the compensation requirement of (iii) above during either a determination year or look back year, the highest paid officer for such year shall be treated as a Highly Compensated Employee. For purposes of this Section, the determination year shall be the Plan Year. The look back year shall be the twelve (12) month period immediately preceding the determination year. The term Highly Compensated Employee also includes any Associate who separated from service (or was deemed to have separated) prior to the determination year, performs no service for the Employer during the determination year, and was a Highly Compensated Employee for either the separation year or any determination year ending on or after the Associate's 55th birthday. If an Associate is, during a determination year or look back year, a family member of either a 5 percent or more owner who is an active or former Associate or a Highly Compensated Employee who is one of the 10 most highly compensated Associates ranked on the basis of compensation paid by the Employer during such year, then the family member and the 5 percent or more owner or top ten Highly Compensated Employee. For purposes of this Section, family member includes the spouse, lineal ascendant and descendants of the Associate or former Associate and the spouses of such lineal ascendant and descendants. The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of Associates in the top paid group, the top 100 Associates, the number of Associates treated as officers and the compensation that is considered, will be made in accordance with Section 414(q) of the Code and the regulations thereunder.

Effective for Plan Years beginning after December 31, 1996, a 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. A Highly Compensated former Employee is based on the rules applicable

to determining Highly Compensated Employee status as in effect for that determination year, in accordance with Section 1.414(q)-1T of the temporary Income Tax Regulations and IRS Notice 9745. In determining whether an Associate is a Highly Compensated Employee for the 1997 Plan Year, the amendments to Section 414(q) of the Code stated above shall be treated as in effect for the Plan Year beginning in 1996.

Non Highly Compensated Employee means any Associate who is not a Highly Compensated Employee.

- 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 means, for any Plan Year prior to January 1, 2002, any Associate, former Associate or Beneficiary thereof in an IRS qualified plan adopted by the Employer who at any time during the Plan Year or any of the four (4) preceding Plan Years is:

- (a) an officer of the Employer having an annual compensation greater than fifty percent (50%) of the amount in effect under Section 415(b)(1)(A) of the Code for any Plan Year;
- (b) one (1) of the ten (10) Associates having an annual compensation from the Employer of more than the limitation in effect under Section 415(c)(1)(AP) of the Code and owning (or considered as owning within the meaning of Section 318) of the Code both more than a one-half percent (1/2%) interest, and the largest interest in the Employer;
- (c) a five (5) percent or more owner of the Employer; or
- (d) a one (1) percent or more owner of the Employer having an annual compensation from the Employer of more than one hundred fifty thousand dollars (\$150,000).

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(a)(8), 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.

Non Key Employee means any Associate who is not a Key Employee.

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 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.
- 1.38 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.
- 1.39 Participant means any Associate who becomes a Participant as provided in Article II hereof.
- 1.40 Plan Year means the twelve (12) month period beginning January 1 and ending December 31.
- 1.41 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.
- 1.42 Rollover Contributions means contributions made by an Associate to such Associate's Rollover Account pursuant to Article VI.
- 1.43 Salary Deferral means contributions made to the Fund by an Employer on behalf of a Contributing Participant pursuant to Section 3.01.
- 1.44 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.

- 1.45 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.
- 1.46 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:

- (d) 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.
- (e) 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.
- (f) 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.
- (g) 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 Sections 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.
- (h) 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.

- (i) 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.
- (j) For Plan Years beginning after December 31, 2001, the accounts 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.
- (k) 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.

- 1.47 Trust Agreement means the agreement entered into between the Company and the Trustee.
- 1.48 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.
- 1.49 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.
- 1.50 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.

1.51 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.

## ARTICLE II

### PARTICIPATION

#### 2.01 PARTICIPATION

Each Associate who has attained age twenty-one (21) and has completed one Year of Eligibility Service prior to January 1, 1999 and is employed on January 1, 1999 shall continue to be a Participant in the Plan as of January 1, 1999.

Each Associate who is employed in January 1, 1999 but had not either (a) attained age twenty-one (21) or (b) completed one year of Eligibility Service as of January 1, 1999, 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, 1999 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.

#### 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 as 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



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 INVESTMENT FUND DIRECTION

Upon commencement of participation 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.

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

#### 2.09 PLAN BINDING

Upon becoming a Participant, a Participant shall be bound then and thereafter by the terms of this Plan and 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(a)(8) of the Code, may not exceed ten thousand five hundred dollars (\$10,500.00) in any one calendar year. The dollar limitation in the preceding sentence shall be adjusted in accordance with Section 415(d) of the Code.

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(a)(8) 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 401(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 a 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 a 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

On 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 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 its Associates. 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 its Associates. 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.

## 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 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.

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 returned to the Employer.

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 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.

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.

#### 4.03 MULTIPLE USE LIMITATION

Effective for Plan Years beginning prior to January 1, 2002, in the event the Employer or an Affiliate sponsors one or more qualified plans to which Sections 401(k) and 401(m) of the Code apply, additional rules shall be applicable to prevent the multiple use of the alternative test described in Sections 401(k)(3)(A)(ii)(11) and 401(m)(2)(A)(ii) of the Code with respect to any Participant.

The multiple use of the alternative test as referenced above occurs if: (a) one or more Highly Compensated Employees are eligible under a plan subject to Sections 401(k) and 401(m) of the Code; and (b) the sum of the actual Deferral Percentage of the entire group of eligible Highly Compensated Employees subject to Section 401(k) of the Code and the Actual Contribution Percentage of the entire group of eligible Highly Compensated Employees under the plan subject to Section 401(m) of the Code exceeds the "Aggregate Limit".

The Aggregate Limit is the greater of (1) and (2) below:

(1) The sum of

- (a) One hundred and twenty-five percent of the greater of
  - (i) the Actual Deferral Percentage of the group of Non Highly Compensated Employees eligible under the Plan subject to Section 401(k) of the Code for the Plan Year or
  - (ii) the Actual Contribution Percentage of the group of Non Highly

Compensated Employees eligible under the Plan subject to Section 401(m) of the Code for the Plan Year; and

- (b) Two plus the lesser of (i) or (ii) above. In no event, however, shall this amount exceed two hundred percent of the lesser of (i) or (ii) above.

(2) The sum of

- (a) One hundred and twenty-five percent of the greater of (i) the Actual Deferral Percentage of the group of Non Highly Compensated employees eligible under the Plan subject to Section 401(k) of the Code for the Plan Year or (ii) the Actual Contribution Percentage of the group of Non Highly Compensated Employees eligible under the Plan subject to Section 401(m) of the Code for the Plan Year; and
- (b) Two plus the lesser of (i) or (ii) above. In no event, however, shall this amount exceed two hundred percent of the lesser of (i) or (ii) above.

In the event the Aggregate Limit is exceeded, the Employer shall reduce the Actual Contribution Percentage of those Highly Compensated Employees who also have an Actual Deferral Percentage to the extent necessary to ensure compliance with the limitation stated in the preceding paragraph, by reducing the Actual Contribution Percentage of the Highly Compensated Employee with the highest percentage. The amount by which the Actual Contribution Percentage of Highly Compensated Employees must be reduced shall be treated as a reduction under Section 4.02.

This Section shall not apply if both the Actual Deferral Percentage and the Actual Contribution Percentage of the Highly Compensated Employee group does not exceed 1.25 multiplied by the Actual Deferral Percentage and Actual Contribution Percentage of the Non Highly Compensated Employee group.

All rules of application with respect to this multiple use limitation shall be governed by Sections 401(k) and 401(m) of the Code and any rules and regulations issued pursuant thereto.

## 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 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.

#### 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 restricted 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".

## ARTICLE VI

### ROLLOVERS

#### 6.01 ROLLOVERS FROM OTHER PLANS

Any Associate who has had distributed to him a "qualified total distribution" (within the meaning of Section 402(a)(5)(E) of the Code, from a Defined Contribution Plan or a Defined Benefit Plan that meets the requirements of Section 401(a) of the Code as a result of (i) termination of employment, (ii) plan termination, (iii) disability (or Disabled), or (iv) attaining age fifty-nine and one-half (59-1/2), may transfer the distribution received from such other plan, or from an individual retirement account into which such distribution has been transferred or rolled over, to the Trustee, provided the following conditions are met:

- (a) In the case of a transfer directly from such a plan, the transfer occurs on or before the sixtieth day following his receipt of the distribution from the other plan and the amount transferred equals the amount of the total distribution he received from the other plan less the amount (if any) considered contributed by him in accordance with Section 401(e)(4)(D)(i) of the Code; or
- (b) In the case of a rollover (or transfer) from such an individual retirement account, such rollover or transfer constituted a "rollover contribution" within the meaning of Section 4089d)(3)(a)(ii) of the Code.

Effective as of January 1, 2002, the Plan shall also accept rollovers and direct transfers of the following types of distributions:

- (a) an annuity contract described in Section 403(b) of the Code, excluding after-tax employee contributions; and
- (b) an eligible plan under Section 457(b) of the Code that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state.

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.

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.



## 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:

- (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.

#### 7.07 DEFINED CONTRIBUTION AND DEFINED BENEFIT PLAN FRACTION

For Plan Years beginning prior to January 1, 2000, if a Participant is a participant in a Defined Benefit Plan maintained by the Employer, the sum of his defined benefit plan fraction and his defined contribution plan fraction for any Limitation Year may not exceed 1.0.

For purposes of this Section, the term "defined contribution plan fraction" shall mean a fraction, the numerator of which is the sum of all of the Annual Additions to the Participant's Individual Account under this Plan as of the close of the Limitation Year and the denominator of which is the sum of the lesser of the following amounts determined for such Limitation Year and for each prior Limitation Year of employment with the Employer:

- (a) the product of 1.25 multiplied by the dollar limitation described in Section 7.05(a) for such Limitation Year; or
- (b) the product of 1.4 multiplied by the amount calculated pursuant to Section 7.05(b) with respect to each individual under the Plan for such Limitation Year.

For purposes of this Section, the term, "defined benefit plan fraction" shall mean a fraction, the numerator of which is the Participant's projected annual benefit (as defined in the Defined Benefit Plan) determined as of the close of the Limitation Year and the denominator of which is the lesser of:

- (a) the product of 1.25 multiplied by the dollar limitation in effect pursuant to Section 415(b)(1)(A) of the Code for such Limitation Year; or
- (b) the product of 1.4 multiplied by the amount which may be taken into account pursuant to Section 415(b)(1)(B) of the Code with respect to each individual under the Plan for such Limitation Year.

The limitation on aggregate benefits from a Defined Benefit Plan and a Defined Contribution Plan that is contained in Section 2004 of ERISA, as amended, shall be complied with by a reduction (if necessary) in the Participant's benefits under that Defined benefit Plan (in accordance with the provisions of said plan) and his benefits herein shall not be affected by such aggregate limitation.

## ARTICLE VIII

### DISTRIBUTIONS

#### 8.01 DISTRIBUTION UPON RETIREMENT, DISABILITY 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 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 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 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 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 shall 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 (ii) the Participant agrees in writing, the Committee shall direct that the distribution 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, the Committee may not require a lump sum distribution without the written consent of the Participant.

If the value of the Participant's Individual Account (i) for Plan Years beginning before August 6, 1997, exceeds \$3,500 (or exceeded \$3,500 at the time of any prior Distribution, (ii) for Plan Years beginning after August 5, 1997 and for a distribution made prior to March 22, 1999, exceeds \$5,000 (or exceeded \$5,000 at the time of any prior distribution, and (iii) for Plan Years beginning after August 5, 1997 and for a distribution made after March 21, 1999, that either exceeds \$5,000 or is a remaining payment under a selected optional form of payment that exceeded \$5,000 at the time the selected payment began, and the Individual Account is immediately distributable, the Participants and the Participant's spouse (or survivor, if applicable) must consent in writing to any such distribution of said Individual Account.

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 rollover contributions (and earnings thereon) within the meaning of Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Code.

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 in 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. Provided, however, that 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 70-1/2, 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, 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 (70-1/2). If the Beneficiary is the spouse 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 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:

- (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 (70-1/2), 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%) or more owner. For distributions to a Participant who is a five percent (5%) or more 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%) or more 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.

All distributions required under this Section 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.

Notwithstanding any provisions of the Plan to the contrary with respect to distributions under the Plan made for Plan Years beginning on and after January 1, 2002, the Plan shall apply the minimum distribution requirements of Section 401(a)(9) of the Code in accordance with the regulations under Section 401(a)(9) of the Code as proposed in January 2001. This shall continue in effect until the last day of the last calendar year beginning before the effective date of the final regulations under Section 401(a)(9) of the Code, or at such other days as may be specified in guidance published by the Internal Revenue Service.

#### 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 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.

## 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 in 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 reasonable 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 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.
- (c) The dollar limitation provided for in Section 3.01 for the taxable year of the Participant following the taxable year of withdrawal pursuant to this Section shall be reduced by the Participant's Salary Deferral and other elective contributions for the taxable year of the participant during which the withdrawal pursuant to this Section is taken.

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

#### 9.03 WITHDRAWALS AFTER AGE 59-1/2

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.

## 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 and a secretary. Any action of the Committee shall be determined by the vote of a majority of its members. Either the chairman or the secretary 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 and Trust.

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:

- (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.

## 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 or 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) 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 reasonable 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 of (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, and its corporate seal to be affixed hereto this 26th day of February, 2002.

ATTEST:

BIG LOTS, INC.

BY: /s/Charles W. Haubiel II  
-----

BY: /s/ Albert J. Bell  
-----

Vice President, General

ITS: Counsel and Secretary

ITS: Vice Chairman

SEAL

BIG LOTS  
EXECUTIVE BENEFIT PLAN  
EFFECTIVE JUNE 1, 2002

This booklet is a Summary Plan Description. It is intended to explain the benefits provided by the Big Lots Executive Benefit Plan. Your rights and benefits are determined in accordance with the provisions of the Plan, and your coverage is effective only if you are eligible for coverage and become and remain covered in accordance with the terms of the Plan.

The benefits described in this booklet replace the coverage or benefits described in all booklets, certificates and riders previously issued to you by Big Lots, Inc. that describe similar types of benefits.

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## INTRODUCTION

The Executive Benefit Plan was designed to provide key executives and their families with additional protection against the high cost of health care. The Plan will reimburse 100% of all eligible medical, dental, and vision care expenses not reimbursed under the Big Lots Executive Benefit Plan.

In addition to providing valuable medical expense coverage, the Plan represents an additional source of compensation. We are very pleased to provide these types of benefits.

Any questions about the Executive Benefit Plan should be directed to the Director, Benefits and HRIS.

UNDER CURRENT IRS REGULATIONS, THE BENEFITS RECEIVED FROM THIS PLAN ARE TAXABLE AS INCOME.



SCHEDULE OF BENEFITS

EFFECTIVE JUNE 1, 2002

(ASSOCIATES AND ALL ELIGIBLE DEPENDENTS)

EXECUTIVE MEDICAL CARE BENEFITS

MAXIMUM BENEFIT PER BENEFIT YEAR

PER COVERED FAMILY UNIT.....\$40,000

Expenses for hospital and medical services and supplies are included for coverage under this Plan only if they are necessary medical services as defined herein.

## ELIGIBILITY AND EFFECTIVE DATE OF COVERAGE

### ELIGIBLE ASSOCIATE

All regular full-time associates who have been approved as eligible by Big Lots, Inc. as full Vice-Presidents and above are eligible to participate in the Plan on the first day of full-time employment. The covered associate must enroll for coverage in the Company's Comprehensive Medical and Dental Plan by completing an Enrollment Form and agreeing to required contributions for that coverage.

All eligible associates who are enrolled on the effective date of the Plan will be covered on that date, provide they are actively working. If an associate becomes eligible for this coverage due to a promotion, this coverage will then be effective on the date of the promotion.

An associate who is not actively at work on his effective date of coverage will not be covered until the date he returns to active employment. An associate who is not actively at work because of medical disability or other health conditions on his effective date of coverage, however, will NOT be subject to the actively at work requirements.

### EFFECTIVE DATE FOR BENEFIT CHANGES

If an associate is hospital confined on the effective date of any revision in Plan benefits, all charges incurred during that confinement will be considered at the level of benefits in effect on the date his hospital confinement commenced. If the associate is not actively at work due to medical disability on the effective date of the revision in benefits but

is NOT hospital confined, charges will be considered at the level of benefits in effect on the date charges were incurred.

#### ELIGIBLE DEPENDENT

Eligible dependents include the eligible associate's legal spouse, unless divorced or legally separated, and all children under nineteen (19) years of age, provided the children have never been married and are dependent upon the eligible associate for support and maintenance. The term "children" shall include:

- 1) Natural children and legally adopted children;
- 2) Children placed by court order in the associate's home pending final adoption proceedings;
- 3) Step-children living with the eligible associate in a regular parent-child relationship;
- 4) Other children for whom the eligible associate has legal guardianship who are living with the eligible associate in a regular parent-child relationship; and
- 5) Any child of an eligible associate covered under the Plan who is determined to be an eligible dependent under a qualified medical child support order (QMCSO) or a national medical support notice (NMSN), as defined herein.

In addition to the above, children will be considered as eligible dependents from age nineteen (19) to age twenty-five (25) if they are attending on a full-time basis an accredited high school, college, university or other institution offering high school or post high school education, have never been married, and are dependent upon the eligible associate for support and maintenance.

A child who is physically or mentally incapable of self-support upon attaining the age limit may be considered as an eligible dependent while remaining incapacitated, never having been married, and continuously covered under the Plan. To continue coverage of a child under this provision, proof of incapacity must be submitted to the Claims

Administrator within thirty (30) days after the child's attainment of the age limit. If approved, proof of continuing incapacity may be required from time to time.

Newborn children are eligible for coverage under the Plan from birth (including hospital nursery charges and pediatric examinations for a healthy newborn) provided that the associate has dependent coverage in effect at the time of the child's birth or has elected dependent coverage within thirty (30) days following birth of the child. The associate must notify the General Offices within thirty (30) days following the birth of the child to add that child to the Plan.

The Plan will recognize a qualified medical child support order (QMCSO) or a national medical support notice (NMSN), as defined, for purposes of providing coverage to dependent children. Such order must be sent to the Plan Administrator who will notify the eligible associate named in the order and each alternate recipient (a child of an eligible associate who is recognized in the QMCSO or NMSN as having the right to enroll in the Plan) that a medical child support order (MCSO) has been received and the Plan procedures for determining if it is a "qualified" MCSO. The Plan Administrator must notify each person specified in the MCSO as to their eligibility for coverage and must allow the alternate recipient to designate a representative to receive Plan communications.

The term "eligible dependent" shall not include anyone who is covered as an eligible associate or any dependent child who has ever been married. Also, if both parents are employed by the Company, children will be covered only as dependents of one (1) parent.

#### EFFECTIVE DATE FOR DEPENDENTS

An eligible dependent who is enrolled after the effective date of this Plan will become covered on the same date as the eligible associate or the date such dependent is acquired, whichever is later.

#### COVERAGE FOR CERTAIN EVENTS

##### LAYOFF

If an eligible non-exempt full-time associate is laid off, coverage will terminate on the date layoff commences. Coverage will again become effective the date the eligible associate returns to work following the layoff. "COBRA Continuation Coverage" outlines continued coverage provisions.

##### MEDICAL LEAVE OF ABSENCE

If an eligible associate is on a Company-approved medical leave of absence, as certified by a physician, while covered under this Plan, coverage may be continued for a maximum of twenty-six (26) weeks from the date the medical leave of absence or short term disability commences, whichever circumstance occurs first, subject to payment of any required contributions. "COBRA Continuation Coverage" outlines continued coverage provisions.

##### MILITARY LEAVE OF ABSENCE

If an eligible associate is on a military leave of absence, coverage will continue for a maximum of thirty-one (31) days from the date of his leave as provided under the terms of the Uniformed Services Employment and Reemployment Rights Act (USERRA), and will be reinstated on the date the eligible associate returns to work.

## PERSONAL LEAVE OF ABSENCE (NON-FMLA)

If an eligible associate is granted a Company-approved personal leave of absence, coverage may be continued for a maximum of ninety (90) days.

This provision does not apply to any leave requested under the terms of the Family and Medical Leave Act of 1993 (FMLA) as outlined below. Additional coverage is available under the section entitled "COBRA Continuation Coverage".

## FMLA LEAVE OF ABSENCE

An unpaid leave of absence may be taken for a maximum of twelve (12) weeks during any 12-month period under the group health plan by a covered associate who has completed at least one year of employment and 1,250 hours with the Company during the previous twelve (12) months.

The Family and Medical Leave Act requires employers who have at least fifty (50) associates within seventy-five (75) surface miles to provide unpaid, job-protected leave at the same level of contribution required for the group health plan prior to leave for the following reasons:

- 1) To care for a covered associate's child after birth, or for placement for adoption or foster care;
- 2) To care for the covered associate's spouse, child, or parent who has a serious health condition; or
- 3) For a serious health condition that renders the associate unable to perform his job. This twelve-week continuation will be included in the twenty-six (26) week continuation provided under "Medical Leave of Absence."

Certain kinds of PAID leave, including paid vacation, may be substituted for unpaid leave. Also, any period of coverage provided for disability under "COVERAGE FOR CERTAIN EVENTS" may run concurrently with this FMLA leave.

A "serious health condition" is defined as an illness, injury, impairment or physical or mental condition that involves:

- a) Any period of incapacity or treatment connected with inpatient care (i.e., an overnight stay) in a hospital, hospice, or residential medical care facility;
- b) Any period of incapacity requiring absence of more than three (3) calendar days from work, school, or other regular daily activities that also involves continuing treatment by (or under the supervision of) a health care provider; or
- c) Continuing treatment by (or under the supervision of) a health care provider for a chronic or long-term health condition that is incurable or so serious that, if not treated, would likely result in a period of incapacity of more than three (3) calendar days, and for prenatal care.

The covered associate may be required to provide advance leave notice and medical certification issued by a health care provider prior to leave. Taking a leave may be denied if requirements are not met. The associate ordinarily must provide thirty (30) days advance notice when the leave is "foreseeable."

An employer's obligation to maintain health coverage ends if required contributions are more than thirty (30) days late. The Company may require medical certification to support a request for leave because of a serious health condition, and may require a second or third opinion (at the employer's expense) as well as a fitness for duty report to return to work.

The Human Resources Department should be contacted for additional details on the Family and Medical Leave Act.

#### INDIVIDUAL TERMINATION OF COVERAGE

The coverage of any covered person under the Plan shall terminate the earliest of the following dates:

- 1) The date of termination of the Plan, the date certain benefits terminate, or the date the associate is no longer an eligible associate;
- 2) The date a covered person becomes a full-time member of the Armed Forces of any country, except as specifically provided under "COVERAGE FOR CERTAIN EVENTS";
- 3) The beginning of a period of coverage for which any required contribution is not paid;
- 4) The date an active covered associate or his eligible covered dependent spouse elects Medicare as the primary plan of benefits;
- 5) The date a covered associate's employment terminates, except as provided under the previous section entitled "COVERAGE FOR CERTAIN EVENTS" and as outlined under "COBRA CONTINUATION COVERAGE";
- 6) With respect to a covered dependent, the date coverage terminates for the covered associate or the date such dependent no longer meets the qualifications of an eligible dependent, except as outlined under "COBRA CONTINUATION COVERAGE."

COBRA CONTINUATION COVERAGE  
(CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT)

A covered associate and/or any covered dependent may elect to continue coverage under the Plan at his own expense for up to eighteen (18) months from the date of one of the following qualifying events:

- a) Voluntary or involuntary termination of employment of the covered associate (other than for gross misconduct);
- b) A layoff or approved leave of absence of the covered associate; or
- c) A reduction in work hours for the covered associate.

Coverage must be elected within sixty (60) days from the later of the date coverage terminates or the date written notice of the right to elect continuation coverage is sent. Payment for the cost of continuation coverage is due by the first of the month for each month of coverage, and coverage will cease if the monthly payment is not received within thirty (30) days of the date it was due. Payment for the full cost of coverage for the period



from when coverage was lost through the date of election must be made within forty-five (45) days after the election.

ANY PERIOD OF COVERAGE PROVIDED UNDER COVERAGE FOR CERTAIN EVENTS, EXCEPT FOR LAYOFF, APPROVED PERSONAL LEAVE OF ABSENCE OR FMLA LEAVE, SHALL BE CREDITED TO THIS 18-MONTH CONTINUATION COVERAGE REQUIREMENT.

A covered dependent may elect to continue coverage under the Plan at his own expense for up to a maximum of thirty-six (36) months from the date of one of the following qualifying events:

- a) The death of the covered associate;
- b) Loss of eligibility as a covered dependent as defined in the Plan;
- c) Divorce or legal separation of the covered associate;
- d) The covered associate becoming entitled to primary Medicare benefits; or
- e) A filing for reorganization under Chapter 11 of the Bankruptcy Code by the Company in the case of a surviving spouse and/or dependent child(ren) of a deceased retired associate.

Coverage must be elected within sixty (60) days from the later of the date coverage terminates or the date written notice of the right to elect continuation coverage is sent. Payment for the cost of continuation coverage is due by the first of the month for each month of coverage, and coverage will cease if the monthly payment is not received within thirty (30) days of the date it was due. Payment for the full cost of coverage for the period from when coverage was lost through the date of election must be made within forty-five (45) days after the election.

The covered associate or dependent is responsible for notifying the Company within sixty (60) days of the events outlined in items "b" and "c" above. Failure to do so will result in the loss of the covered dependent's right to elect COBRA continuation coverage.

A child who is born to or placed for adoption with the covered associate during a period of COBRA coverage will be eligible to become covered as a dependent. In accordance with the terms of the Plan and federal law requirements, these new dependents may be added to COBRA coverage upon proper notification to the Plan Administrator of the birth or adoption.

#### COBRA DISABILITY CONTINUATION

Covered associates and dependents entitled to elect continuation coverage outlined above, as a result of an associate's termination of employment or reduction in hours, may extend their coverage from eighteen (18) to twenty-nine (29) months if the covered associate or dependent is disabled (as defined under Title II or Title XVI of the Social Security Act) at the time of employment termination or reduction in hours or within the first sixty (60) days of COBRA Continuation Coverage. The covered associate or dependent must notify the Personnel Office within sixty (60) days of the Social Security disability determination and before the end of the normal eighteen (18) month coverage period. Beginning with the nineteenth month, the cost of the continuation coverage will increase by 50%.

The covered associate or dependent is also responsible for notifying the Company within thirty (30) days after a final determination has been made by Social Security that the covered person is no longer disabled. Continuation coverage may be terminated on the first day of the month that is more than thirty (30) days after the final determination that the covered person is no longer disabled or on the date the individual becomes entitled to Medicare benefits, if sooner.

## TERMINATION OF COBRA COVERAGE

Any COBRA continuation coverage made available above will cease if:

- a) The Company no longer provides group health coverage to any of its associates;
- b) After payment has begun, a covered associate or dependent fails to make the full payment when due or within the 30-day grace period allowed by law;
- c) The covered associate or dependent becomes entitled to Medicare after COBRA coverage has been elected. However, coverage for dependents not eligible for Medicare will not cease but will instead be extended for up to an additional eighteen (18) months or thirty-six (36) months total from the date of the original loss of coverage if due to termination or a reduction in hours. COBRA coverage may be added if Medicare coverage was in effect for the covered person prior to the COBRA qualifying event;
- d) The covered associate or dependent becomes covered (as an associate or otherwise) under another group health plan after COBRA coverage herein has been elected, unless that plan contains any exclusion or limitation in regard to a pre-existing condition that is not waived by reason of prior Creditable Coverage (HIPAA).

The Plan Administrator should be contacted for additional details concerning COBRA continuation coverage.

## EXECUTIVE BENEFIT PLAN

Benefits are payable under this Plan for eligible health care expenses incurred by a covered person while covered under this Plan. Eligible health care expenses are expenses incurred by a covered person in excess of benefits paid under other plans during the benefit year as explained below. The amount of a covered associate's and his dependent's health care expenses shall not exceed the Maximum Family Benefit shown in the Schedule of Benefits during any calendar year.

## ELIGIBLE HEALTH CARE

Eligible health care expenses include expenses of medical care (as defined and as allowed as a deduction by Section 213 of the Internal Revenue Service Code of 1954, as amended) incurred by the covered person or for which the covered person becomes obligated on behalf of his dependents. Medical care, as defined by the IRS under Section 213, means:

- a) Amounts paid for the diagnosis, cure, treatment, or prevention of illness or for the purpose of affecting any structure or function of the body; and
- b) Amounts paid for transportation primarily for and essential to such medical care.

Contributions for the Company's Comprehensive Medical and Dental Plans, however, and medical expenses that would be reimbursable or payable under the Company's Comprehensive Medical Plan, the spouse's group health plan, group dental and vision plans, Workers' Compensation and Dental Plans are not covered under this Plan.

## BENEFITS PAID UNDER OTHER PLANS

Any benefits payable during a benefit year for a covered associate and/or his dependents under the Company's Comprehensive Medical Plan, the spouse's group health plan, group dental and vision plans, Workers' Compensation and other governmental programs are considered benefits paid under other plans and will not be eligible for payment under this Plan. Deductibles and co-payments under these other plans, however, will be eligible for reimbursement under this Plan, as will amounts exceeding maximums specified in the Comprehensive Medical Plan.

## EXAMPLES OF COVERED ITEMS

The following medical services, supplies, or expenses performed or prescribed by a physician or surgeon licensed to practice medicine are some of the items which will be considered for payment under this Plan. This list is not intended to exclude other items of medical care that would be considered under IRS Section 213.

- 1) Services of physicians and surgeons, including specialists and midwives;
- 2) Medically necessary room and board and other hospital services required for medical or surgical care or treatment in a legally constituted hospital, including charges for accommodation in intensive care and other special care units;
- 3) Oxygen, anesthesia and their administration;
- 4) X-rays and other diagnostic laboratory procedures;
- 5) Radiation therapy, chemotherapy and kidney dialysis;
- 6) Room and board charges by a Skilled Nursing Facility either following a hospital confinement or when recommended by a physician as medically necessary care;
- 7) Drugs and medicines, including vitamins and iron supplements which:
  - a) Require a prescription by a physician to dispense; and
  - b) Are approved by the United States Food and Drug Administration for general use in treating the illness or injury for which they are prescribed;
- 8) Dental services and supplies for charges made by or under the supervision of a dentist in connection with preventive or therapeutic dental care (including orthodontia);
- 9) Vision Care Expenses:
  - a) Vision Examination - A vision examination only when performed by a physician or optometrist;

- b) Lens, Lenses - Lenses, including contact lenses and lenses for sun glasses only when prescribed by a physician or optometrist, and charges for oversize lenses and tinted lenses;
  - c) Frame - A frame only when such frame is for use with a lens or set of lenses which is prescribed by a physician or optometrist; and
  - d) Radial keratotomy and any similar surgery to correct vision defects.
- 10) Hearing aids and examinations for the prescription and fitting thereof;
- 11) Charges for medically necessary transportation primarily for and essential to medical care; and
- 12) Lodging while away from home primarily for and essential to medical care, if:
- a) Medical care is provided by a physician in a licensed hospital or in a facility which is related to, or the equivalent of, a licensed hospital; and
  - b) There is no significant element of personal pleasure, recreation or vacation in the travel away from home.

#### GENERAL LIMITATIONS

No benefits shall be payable under the Plan with respect to:

- 1) Any charges incurred due to injury or illness resulting from or sustained as a result of being engaged in an illegal occupation; commission or attempted commission of an assault or felonious act;
- 2) Any charges incurred due to injury or illness resulting from duty as a member of the Armed Forces of any state or country, war or act of war, declared or undeclared;
- 3) Any service or supply for care or treatment provided or furnished by the United States Government, or any service or supply for care or treatment provided or furnished by any state or local government when without this coverage the associate would not be required to make payment, EXCEPT:
  - a) Treatment rendered United States veterans for non-service related injury or illness in Veterans Administration hospitals; or
  - b) Inpatient hospital charges for treatment rendered to military retirees and their eligible dependents while confined in a military hospital;

- 4) Any charges incurred as the result of injury caused by participation in civil insurrection or a riot;
- 5) Any charges incurred for illness or injury which would entitle the covered person to any benefits under a Workers' Compensation Act or similar legislation, or which are due to any occupation or employment for wage or profit;
- 6) Any charges for cosmetic surgery, EXCEPT:
  - a) As the result of an accidental injury;
  - b) Due solely to cosmetic surgery for repair of defects resulting from surgery and as outlined for mastectomy under "All Other Covered Medical Expenses" under the Comprehensive Medical Plan;
  - c) Due solely to congenital defect of a covered dependent child;
- 7) Any services or supplies which are not prescribed or recommended by a physician acting within the scope of his license;
- 8) Any charges incurred for pregnancy or pregnancy related medical conditions EXCEPT for female associates and covered female dependent spouses;
- 9) Any charges in connection with any treatment, therapy, teaching technique or program for remedial education or habilitative or rehabilitative training which is principally intended to overcome, compensate for, or improve any non-organic learning impairment;
- 10) Any charges for custodial or domiciliary care, rest cures, convalescent care, a place for the aged, or charges for education and training (including occupational or job related training);
- 11) Any charges for services not medically necessary for the active treatment of the condition, EXCEPT as specified;
- 12) Any charges for or in connection with experimental procedures or treatment not approved by the American Medical Association or the appropriate Medical Specialty Society;
- 13) Any charges for hospitalization to avoid incarceration or a fine, EXCEPT when medically necessary;

- 14) Any charges incurred due to the second or additional occurrences of an intentionally self-inflicted injury and any attempts to commit suicide or complications arising out of the attempt(s) unless due to a medical condition or domestic violence;
- 15) Any charges for services and supplies provided through a medical department, clinic or other facility provided by or maintained by the employer, or a medical clinic or similar facility for which services or supplies are or should be available without charge to the covered person;
- 16) Any charges which the covered person has no legal obligation to pay or for charges which would not have been made if the person did not have coverage under this Plan; and
- 17) Any charges eligible for reimbursement under any group pre-payment plan or any other group health or insurance plan.

#### GLOSSARY OF TERMS

##### ADVERSE BENEFIT DETERMINATION

An Adverse Benefit Determination means any denial or failure to make payment, in whole or in part, in response to a claim properly submitted to the Claims Administrator, including determination of a person's eligibility to participate in the Plan, any failure to provide or make payment due to utilization review, and a denial of an item or service which is determined to be experimental, investigational or not medically necessary.

##### ALCOHOLISM TREATMENT FACILITY

An alcoholism treatment facility is a facility that::

- 1) Is approved by the Joint Commission on Accreditation of Healthcare Organizations or is certified by the Department of Health;
- 2) Has in effect plans for utilization and peer review; and
- 3) Has in effect a program for detoxification or rehabilitation.

"Residential alcoholism treatment facility" shall mean a facility as herein defined that operates twenty-four (24) hours a day and seven (7) days a week.

"Outpatient alcoholism treatment facility" shall mean a facility as herein defined that provides services to ambulatory patients during designated hours and/or specified days.



## ASSIGNMENT OF BENEFITS

An assignment of benefits is written authorization by the eligible associate for the Claims Administrator to pay benefits directly to the provider of service.

## BENEFIT YEAR

A benefit year is a period of twelve (12) consecutive months beginning with December 1 and ending November 30th.

## BOARD CERTIFIED SPECIALIST

A board-certified specialist is a physician who holds the rank of Diplomat of an American Board (M.D.) or Certified Specialist (D.O.).

## CALENDAR YEAR

A calendar year is a period of twelve (12) consecutive months beginning with January 1 and ending December 31st.

## CLAIMS ADMINISTRATOR

Employee Benefit Management Corp., a professional claims administrator, administers the claims.

## COMMUNITY MENTAL HEALTH FACILITY

A community mental health facility is a facility that:

- 1) Is approved by the Joint Commission on Accreditation of Healthcare Organizations or certified by the applicable State Department of Mental Health and Mental Retardation;
- 2) Is approved by a regional health planning agency or is providing services under the applicable state statute; and
- 3) Has in effect a plan for utilization review and for peer review.

## COMPANY

The Company is Big Lots, Inc. and any subsidiary or affiliate that has elected to participate in the Trust.

## COSMETIC SURGERY

Cosmetic surgery is the surgical alteration for the improvement of the covered person's appearance, rather than improvement or restoration of bodily functions.

## COVERED FAMILY

A covered family is an eligible associate who is at the level of Vice-President or above, who completes an Enrollment Form, his eligible dependents, and any former

covered associates and their dependents who have elected family COBRA continuation coverage.

#### COVERED PERSON

A covered person is an eligible associate who completes an Enrollment Form, his eligible dependents, if the eligible associate elects dependent coverage, and any former covered associates or dependents who have elected COBRA continuation coverage.

#### CUSTODIAL CARE

Custodial care means any type of service including room and board and other institutional services which are designed essentially to assist the covered person, whether disabled or not, in the activities of daily living. Such services include assistance in walking or getting in and out of bed, bathing, dressing, feeding, preparation of special diets or supervision over medication that can normally be self-administered.

#### DAY TREATMENT PROGRAM

A day treatment program is any outpatient treatment program accredited by the Joint Commission on Accreditation of Healthcare Organizations which is recommended by the attending physician for treatment of mental illness, nervous disorders, alcoholism or drug dependency and which takes place at least five (5) days per week for a minimum of six (6) hours per day. Such program must be under the direct supervision of a licensed psychologist or psychiatrist and may include both individual and group therapy, as well as family counseling by certified counselors if medically necessary, but shall not include any diversional therapy, marital counseling or court-ordered care.

#### DENTAL HYGIENIST

A dental hygienist is a person who is legally licensed to practice dental hygiene in the state in which he performs dental services provided he is acting within the scope of his license and is working under the supervision and direction of a dentist.

#### DENTAL SERVICE

Dental service includes care and procedures rendered by dentists for diagnosis or treatment of dental disease, injury, or abnormality based on valid dental need according to accepted standards of dental practice.

#### DENTIST

A dentist is a person who is legally licensed to practice dentistry in the state in which he performs dental services, provided he is acting within the scope of his license.

#### EFFECTIVE DATE

The original effective date of the Plan was June 1, 1989; this revision is effective June 1, 2002.

## ELECTIVE SURGERY

Elective surgery is any non-emergency surgical procedure which may be scheduled at the convenience of the patient without jeopardizing the patient's life or causing serious impairment to the patient's bodily functions.

## EXPERIMENTAL, INVESTIGATIONAL OR UNPROVEN

Experimental, investigational or unproven care means medical, surgical, psychiatric, substance abuse, or other health care technologies, treatment, diagnostic procedures, drug therapies or devices that are determined by the Plan (at the time it makes a determination regarding coverage in a particular case ) to be:

- 1) Not approved by the U.S. Food and Drug Administration (FDA) to be lawfully marketed for the proposed use;
- 2) Subject to review and approval by the treating facility's Institutional Review Board for the proposed use; or
- 3) The subject of an ongoing clinical trial that meets the definition of a Phase 1, 2 or 3 Clinical Trial set forth in the FDA regulations regardless of whether the trial is actually subject to FDA oversight; or
- 4) Not demonstrated through prevailing peer-reviewed medical literature to be safe and effective for treating or diagnosing the condition, illness or diagnosis for which its use is proposed.

## FREE-STANDING SURGICAL OR EMERGENCY CARE FACILITY

A free-standing surgical or emergency care facility is a facility which is constituted, licensed and operated in accordance with the laws of legally authorized agencies responsible for medical institutions and which:

- 1) Has emergency facilities and/or permanent operating rooms and at least one (1) recovery room and all necessary equipment for use before, during, and after surgery;
- 2) Is supervised by an organized medical staff, including registered nurses (R.N.) available for care in an operating or recovery room;
- 3) Has a contract with at least one (1) nearby hospital for immediate acceptance of patients who require hospital care following care in the free-standing surgical or emergency care facility; and
- 4) Is other than a private office or clinic of one (1) or more doctors.

## HOME HEALTH CARE AGENCY

A home health care agency is a public or private agency or organization, or a subdivision thereof that:

- 1) Is primarily engaged in providing skilled nursing and other therapeutic services;

- 2) Has policies established by associated professional personnel, including one (1) or more physicians and one (1) or more registered nurses (R.N.) to govern the services provided under the supervision of such physician or nurse;
- 3) Maintains clinical records on all patients; and
- 4) In cases where the applicable state or local law provides for the licensing of agencies or organizations of this nature, the latter are licensed or approved by the state or local law as meeting the standards established for such licensing.

In no event, will the term "home health care agency" include one that is engaged primarily in the care and treatment of mental illness or provides primarily custodial care.

#### HOME HEALTH CARE AIDE

A home health care aide is an individual who provides medical or therapeutic care and who reports to and is under the direct supervision of a home health care agency.

#### HOME HEALTH CARE PLAN

A home health care plan is a plan for home care and treatment established and approved in writing by a physician who certifies that the individual would require confinement in lieu of the care and treatment specified in the Plan.

#### HOSPICE

A hospice is a facility which is engaged primarily in providing hospice services to terminally ill persons and which meets all the requirements set forth below:

- 1) It has obtained any required state or government certificate of need approval;
- 2) It is under the supervision of a duly qualified physician;
- 3) It provides twenty-four (24) hour a day, seven (7) day a week service;
- 4) It has a full-time administrator;
- 5) It has a nurse coordinator who is a registered nurse (R.N.) with four (4) years of full-time clinical experience, at least two (2) of which involved caring for terminally ill patients;
- 6) It has a social-service coordinator licensed in the jurisdiction where located;
- 7) It maintains written records of services on all patients;
- 8) It is established and operated in accordance with the applicable laws in the jurisdiction where located, is licensed and approved by the regulatory authority having responsibility for licensing under the law; and
- 9) Its employees are bonded and it provides malpractice and malplacement insurance.

## HOSPITAL

A hospital is an institution which is engaged primarily in providing medical care and treatment of sick and injured persons on an inpatient basis at the patient's expense and which meets all the requirements set forth below:

- 1) It maintains permanent and full-time facilities for bed care of resident patients;
- 2) It maintains, on the premises, diagnostic and therapeutic facilities for surgical and medical diagnosis and treatment of sick and injured persons by or under the supervision of a staff of duly qualified physicians;
- 3) It continuously provides, on the premises, twenty-four (24) hour a day nursing service by or under the supervision of registered graduate nurses; and
- 4) It is operated continuously with organized facilities for operative surgery on the premises and is operating lawfully as a hospital in the jurisdiction where located. However, the requirements of facilities for surgery shall not apply to an acute rehabilitation facility or to a qualified psychiatric institution.

The term "hospital" may also include a free-standing surgical or emergency care facility but does not include a hotel, rest home, nursing home, convalescent home, or facility for custodial care of the mentally ill or of the aged.

## ILLNESS

An illness is a mental or physical disease or infirmity. For the purpose of coverage under this Plan, pregnancy and pregnancy related medical conditions will be treated the same as an illness.

## INJURY

An injury is a non-occupational accidental injury that causes trauma to the body through unexpected external means.

## INTENSIVE OUTPATIENT TREATMENT PROGRAM

An intensive outpatient treatment program is any outpatient treatment program accredited by the Joint Commission on Accreditation of Healthcare Organizations which is recommended by the attending physician for treatment of mental illness, nervous disorders, alcoholism or drug dependency, which takes place at least three (3) but not more than five (5) evenings per week for a minimum of three (3) hours per evening. Such program must be under the direct supervision of a licensed psychologist or psychiatrist and may include both individual and group therapy, as well as family counseling by certified counselors if medically necessary, but shall not include any diversional therapy, marital counseling or court-ordered care.

## MEDICAL CHILD SUPPORT ORDER

A medical child support order (MCSO) is any court judgment, decree, or order (including a court's approval of a domestic relations settlement agreement) that:

- 1) Provides for child support related to health benefits with respect to the child of a group health plan participant, or requires health benefit coverage of such child in such plan, and is ordered under state domestic relations law, or
- 2) Enforces a state medical child support law enacted under Sec. 1908 of the Social Security Act with respect to a group health plan.

## MIDWIFE

According to the International Confederation of Midwives, World Health Organization, and Federation of International Gynecologists and Obstetricians, a midwife means a person who, having been regularly admitted to a midwifery educational program, is fully recognized in the country in which it is located, has successfully completed the prescribed course of studies in midwifery, and has acquired the requisite qualifications to be registered and/or legally licensed to practice midwifery.

## NATIONAL MEDICAL SUPPORT NOTICE

A national medical support notice (NMSN) is a notice completed under an order issued by a state child support agency and is acceptable under ERISA in lieu of a Qualified Medical Child Support Order for adding a child under the Plan for medical and/or other coverage and which contains one or more of the following:

- 1) The name of the issuing agency;
- 2) The name and mailing address of an employee who is a participant in the Plan and eligible for participation under the Plan, who is a non-custodial parent obligated by a State court or administrative order to provide medical child support for one or more children named in the Notice;
- 3) The name and mailing address of one or more alternate recipient(s); and 4) The family group health care coverage required by the order is identifies and available.

The employer must transfer Part B of the notice to the Plan Administrator within twenty (20) business days, and the Plan Administrator must complete and return the notice to the issuing agency within twenty (20) business days of receipt of the NMSN. Notification will be sent to the custodial and/or non-custodial parent whose coverage is the basis of the NMSN and from whom any necessary employee contributions will be withheld as determined under Part A of the notice.

## NECESSARY MEDICAL SERVICES

Necessary medical services, procedures, or levels of care are those health services, supplies or drug therapies which are determined by the Plan to be medically necessary to meet the health needs of a covered person according to the benefits available in this Summary Plan Description.

Determination of necessary medical services is made on a case-by-case basis and considers several factors including, but not limited to, the standards of the medical community. The fact that a physician has performed or prescribed a procedure or treatment, or the fact that it may be the only available treatment of a particular injury or illness does not mean that it is medically necessary. In addition, the service must, in the Plan's judgment be:

- 1) Consistent with the diagnosis of and prescribed course of treatment for the covered person's injury or illness;
- 2) Necessary to treat the covered person's injury or illness;
- 3) Required for reasons other than the convenience of the covered person or his physician, or not required for custodial, comfort or maintenance reasons; and
- 4) Rendered at the frequency that is accepted by the medical community and in accordance with the Plan's guidelines.

## PHYSICIAN

A physician is a person duly licensed under the governing authority to perform the services rendered for benefits covered under the Plan. Should such person be other than a Medical Doctor (M.D.), Doctor of Osteopathy (D.O.), or Doctor of Dental Surgery (D.D.S.), and the licensing requirements of the applicable jurisdiction require that such person be recognized as a provider to the extent that he is performing services within the scope of his license, such services will be recognized under the Plan.

## PLAN

The Plan means the benefits and provisions for payment of benefits as set forth in the Big Lots Executive Benefit Plan adopted by the Trustees.

## POST-SERVICE CLAIM

A Post-Service Claim is any claim that is not a Pre-Service Claim. A post-service claim includes a claim that contains re-priced claims amounts, if applicable.

## PRE-SERVICE CLAIM

A Pre-Service Claim is any claim that relates to treatment that must be pre-certified or pre-approved under the terms of the Plan.

## QUALIFIED MEDICAL CHILD SUPPORT ORDER

A qualified medical child support order (QMCSO) is an MCSO that specifies:

- 1) The name and last known mailing address of the eligible associate to whom the MCSO relates;
- 2) The name and address of each child of the eligible associate ("alternate recipient") covered by the MCSO;
- 3) A reasonable description of the type of coverage to be provided by the group health plan or the manner in which coverage will be determined; and
- 4) The period for which coverage must be provided.

In addition, the MCSO is "qualified" only if it does not require the group health plan to provide any type or form of benefit, or any option, not otherwise provided under the Plan, except to the extent required by law.

## SECOND SURGICAL OPINION/THIRD SURGICAL OPINION

A second (or third) surgical opinion is an opinion of a physician or surgeon based on his examination of the patient, of the advisability of an elective surgical procedure after another licensed physician has recommended surgery, but prior to the performance of the surgery.

## SKILLED NURSING FACILITY

A skilled nursing facility is an institution or distinct part of an institution which:

- 1) Is licensed pursuant to the law or approved by the appropriate authority;
- 2) Provides twenty-four (24) hour nursing care for sick and injured patients on an inpatient basis;
- 3) Has nursing care and service policies developed with the advice of and subject to review by professional personnel;
- 4) Has a physician, registered nurse or other medical staff responsible for the execution of such policies;
- 5) Requires every patient to be under the care of a physician and makes a physician available to furnish medical care in case of emergency;
- 6) Maintains clinical records on all patients, has appropriate methods for dispensing drugs and medicines and has at least one (1) registered nurse employed on a full-time basis; and
- 7) Provides for a group of physicians to periodically review medical necessity for admissions, continuation of confinements, duration of stay and adequacy of care.

The term "skilled nursing facility" shall not include an institution that is primarily for custodial care.



## TOTALLY DISABLED

Totally disabled means that the covered person is under the regular care of a physician and is unable to perform any and every duty of his occupation and is not employed for wage or profit. If the covered person is not employed, totally disabled means that he is unable to perform any of the normal activities of a person of like age and sex in good health.

## URGENT CARE CLAIM

An Urgent Care Claim is any claim for treatment that, if delayed, could seriously jeopardize the life or health of the patient, would limit the ability of the claimant to regain maximum function, or would subject the patient to severe pain that could not be adequately managed without the treatment that is the subject of the claim.

## COORDINATION OF BENEFITS WITH GROUP PLANS AND MEDICARE

The Plan has been designed to help meet the cost of illness or injury. Since it is not intended that greater benefits be received than the actual medical expenses incurred, the amount of benefits payable under the Plan will take into account any coverage under other Plans and be coordinated with the benefits of the other Plans.

The Plan will always pay either its regular benefits in full if it is determined to be the Primary Plan (plan primarily responsible for payment) or, if the Plan is determined to be the Secondary Plan, a reduced amount which, when added to the benefits payable by the Primary Plan, will not exceed 100% of Allowable Expenses.

In no event, however, will payment exceed the maximum benefits payable under this Plan.

## PRIMARY PLAN

Regardless of the rules set forth in other Plans covering persons covered under this Plan, benefits shall be determined according to the following rules in the following order:

- 1) The plan not having any Coordination of Benefits provision or Non-Duplication Coverage Exclusion will always be the Primary Plan; or
- 2) The plan covering the person as an associate, rather than the plan covering the person as a dependent; or
- 3) The plan covering the person as an active associate will always be the Primary Plan while the plan that covers the covered associate who is laid-off or retired will be secondary; this shall also apply to the covered dependents of such associate; or
- 4) If a person whose coverage is provided under a right of continuation pursuant to federal or state law also is covered under another plan, the plan covering the person as an associate, member, subscriber or retiree (or as that person's dependent) will be the Primary Plan and the continuation coverage will be secondary; or
- 5) The Primary Plan with regard to a dependent child shall be the plan covering the person as a dependent child of the associate (Parent), whose birthday occurs earlier in the calendar year. If both parents have the same birthday, the Primary Plan is the plan that has covered the parent for the longer period of time. However, determination of the Primary Plan with respect to a dependent child according to the associate's birthday method will defer to the other plan in force when the other plan does not follow the birthday method. The following exception for dependent children of separated or divorced parents shall apply:
  - a) If parents are divorced or separated and there is a court decree which establishes financial responsibility for medical, dental, or other health care expenses for the child, the Plan covering the child of the parent who has that responsibility will be primary;
  - b) If there is no court decree, the Plan which covers the child as a dependent of the parent with custody will be primary;
  - c) If there is no court decree and the parent with custody has remarried, the order of benefits will be:
    - 1) The Plan of the parent with custody;
    - 2) The Plan of the spouse of the parent with custody;
    - 3) The Plan of the parent without custody.

When the above rules do not apply, the Plan that has covered the person (patient) for the longer period of time will be primary.

#### ALLOWABLE EXPENSES

"Allowable Expenses" shall mean any necessary usual, customary and reasonable (UCR) expenses incurred while eligible for benefits under the Plan, part or all of which would be covered under any of the Plans, but not including any expenses contained in the list of General Limitations. "Plan" shall mean any Plan providing benefits or services for or by reason of medical or dental care or treatment that is provided by group insurance, Medicare, no-fault auto insurance or any other employer or government sponsored programs.

With regard to any covered person eligible to elect Medicare except those described in the next paragraph, Medicare benefits will be considered as having been paid whether or not the covered person has applied for Medicare coverage or submitted a claim for Medicare benefits. It is the covered person's responsibility to apply for and maintain both Part A and Part B Medicare coverage.

With regard to an actively at work eligible associate age sixty-five (65) or older, or an eligible covered dependent spouse of an active eligible associate who is within the same age bracket, either of whom has elected in writing to be covered under this Plan, the benefits of this Plan will be primary.

This Plan shall also be primary for military retirees and their eligible dependents for inpatient hospital charges in military medical hospitals as required by law and in

accordance with this Plan. The Claims Administrator shall have the right to request and release any information that is necessary in order to determine the primary plan.

#### AMENDMENT, MODIFICATION OR TERMINATION

The Plan Administrator reserves the right to amend, modify, or terminate any or all of the provisions of this Plan (including retroactively if necessary or appropriate to meet statutory requirements) at any time. Amendment, modification, or termination, however, shall not adversely affect the right of a covered person to receive reimbursement for medical expenses incurred prior to the date of such amendment, modification or termination.

#### FACILITY OF PAYMENT

Benefits may be paid directly to the providers of services if a valid assignment of benefits is executed.

If, in the opinion of the Claims Administrator, a valid release cannot be rendered for the payment of any benefit payable under this Plan, the Claims Administrator may, at his option, make such payment to the individual or individuals as are, in the Claims Administrator's opinion, equitably entitled thereto. In the event of the death of the covered person prior to such time as all benefit payments due him have been made, the Claims Administrator may, at his sole discretion and option, honor benefit assignments, if any, made prior to the death of such covered person.

Any payment made by the Claims Administrator in accordance with the above provisions shall fully discharge the Plan to the extent of such payment.

## MEDICAL CASE MANAGEMENT

Payments for expenses not covered under the Plan that are recommended by a medical case management service shall be reimbursable with the approval of the Plan Sponsor.

## RIGHT OF REIMBURSEMENT

In certain circumstances, a covered person (or the covered person's heirs, executor or beneficiaries) may have an obligation to reimburse the Plan for payments made to or on behalf of the covered person. In particular, if the covered person is entitled to any benefits under the Plan as a result of an injury or illness for which he or she has or may have any claim against a third party, except against policies of insurance issued to and in the name of the covered person, then payments made by the Plan are only made on the condition that the Plan will be reimbursed to the extent of any amounts received from such third party. It does not matter whether the amounts received from the third party are as a result of a judgment rendered in a lawsuit, as a settlement of a claim, or otherwise. The obligation to repay the Plan for benefits paid in such a situation is not subject to any offset or reduction because the covered person has had to pay legal fees or other expenses in securing the recovery from the third party. In addition, the Plan's right to be repaid is enforceable regardless of the purpose of the payment by the third party or how it is characterized in any agreement or judgments between the covered person and the third party.

The Plan's right to be repaid is enforceable regardless of the purpose of the payment by the third party or how it is characterized in any agreement or judgments

between the covered person and the third party. In addition, the Plan is entitled to full reimbursement irrespective of the "make whole" doctrine or whether the covered person has been fully compensated for his or her claim.

By filing a claim for benefits, all covered persons consent to this right of reimbursement and agree to cooperate with the Plan Administrator and the Claims Administrator in any way necessary to enable the Plan to be reimbursed. Before any claims of this sort are paid, the covered person must enter into a written reimbursement agreement with the Claims Administrator, confirming the Plan's right to be reimbursed to the extent of any payments made or to be made under the Plan. In addition, the covered person may not do anything that would prejudice the rights of the Plan to this reimbursement, and the payment of any claims to or on behalf of the covered person may be delayed, withheld, or denied unless the covered person cooperates fully and enters into the requested reimbursement agreement.

#### CLAIMS PROCEDURES

#### ADVERSE BENEFIT DETERMINATIONS AND APPEAL PROCEDURES

If a benefit is denied in whole or part, it is considered an Adverse Benefit Determination, as defined. When an adverse benefit determination is made, the claimant will receive written or electronic notification of the following:

- 1) The specific reason(s) for the adverse benefit determination;
- 2) Reference to relevant Plan provisions used in making the determination;
- 3) A description of additional information necessary for the claimant to perfect the claim and an explanation of why the additional information is necessary;
- 4) A description of the Plan's appeal procedures applicable to the claim including any applicable time limits;

- 5) The claimant's right to bring a civil action under ERISA 502(a) following exhaustion of an appeal of an adverse benefit determination; and
- 6) If the adverse benefit determination reflected was based upon an internal rule, guideline, or protocol, a copy of the rule, guideline, or protocol will be provided free of charge upon written request. Also, if the determination was based on a limitation or exclusion that the treatment was experimental or not medically necessary, an explanation of the scientific or clinical judgment relied upon will be sent free of charge upon written request.

If the covered person is dissatisfied with a benefit determination, he has 180 days following receipt of an Adverse Benefit Determination to submit a written appeal to the Plan Sponsor. If an appeal relates to an urgent care claim, the covered person will be notified of the benefit determination on review as soon as possible, but not later than 72 hours after receipt of the appeal request. If an appeal relates to a non-urgent pre-service claim, the covered person will be notified of the benefit determination on review not later than 30 days after receipt of the appeal request. If the appeal relates to a post-service claim, the covered person will be notified of the benefit determination on review not later than 60 days after receipt of the appeal request. If a medical professional was consulted for the initial denial, then an independent reviewer must be used for the appeal. The Definitions section contains definitions for adverse benefit determination, urgent care claim, pre-service claim and post-service claim.

As part of the appeal process, a full and fair review of each claim will be provided on an unbiased basis. Any individual involved in the initial determination may not participate in an appeal of the initial determination. Documents and other information relating to the claim may be submitted. Upon written request (and free of charge), reasonable access to the Plan's documents and information relevant to the appealed claim

will also be provided. A covered person may also submit a written appeal of his notice regarding Creditable Coverage applied to reduce any Pre-Existing Conditions Limitation in the Plan. The Creditable Coverage will be reviewed by the Claims Administrator, and a written report will be sent to the Plan Administrator. The Plan Administrator will render a decision within 60 days of the appeal with specific reasons for the conclusions reached.

The Plan Administrator's decision on the appeal will be final, binding, and conclusive and will be afforded maximum deference permitted by law. All appeal procedures specified in the Plan must be exhausted before any legal action is filed.

#### PROCEDURES FOR CLAIMING BENEFITS UNDER THE PLAN

##### FILING FOR HOSPITAL/PHYSICIAN/OTHER MEDICAL EXPENSES

The participant Identification Card indicates to providers and covered persons how to file a claim. NOTE: CANCELLED CHECKS, BALANCE DUE STATEMENTS, PHOTOCOPIES, FAXES AND PAYMENT RECEIPTS DO NOT CONTAIN SUFFICIENT INFORMATION TO MEET CLAIM-FILING REQUIREMENTS AND CANNOT BE ACCEPTED.

Complete and current information must be provided for:

- 1) Accident or Injury Claims - explain how, when and where the injury occurred and whether any other party was involved or responsible for the accident.
- 2) Other Coverage - list the name, address and telephone number of any other coverage or payer that may provide coverage, including but not limited to COBRA, Medicare and any other benefit plan.
- 3) Full-time Student - if the Plan provides coverage for full-time students, send a grade card, letter or invoice that proves enrollment when the claim was incurred. Full-time status will be the number of hours stipulated by the accredited university or college per quarter or semester.



If a covered person or provider needs help filing a claim or information on the benefits provided under the Plan, he may contact the telephone number listed on the Identification Card and speak with a Customer Service Representative.

#### DECISION ON SUBMITTED CLAIMS/PRE-AUTHORIZED SERVICES

Claims for benefits are defined as pre-service claims or post-service claims, and the response time may vary according to the type of claim. Pre-service claims may be considered "urgent" or "concurrent". An "adverse benefit determination" includes any decision to deny, reduce, terminate or refuse payment and includes eligibility denials and utilization review decisions. Upon written request, the Plan must explain any internal rules, guidelines or protocols, as well as disclose names of medical professionals that were consulted in the review process.

**PRE-SERVICE CLAIM:** A pre-service claim requires the covered person to pre-certify, notify or receive approval prior to receiving treatment. The utilization review manager must give notice of the decision at least 15 days after the request for services, with one 15-day extension permitted. An extension is permitted only for reasons beyond control of the Plan and requires the covered person be given written notification before the first 15-day period ends.

**URGENT CLAIM:** An urgent claim is a pre-service claim where the covered person's health or life is jeopardized without treatment or which would subject the patient to severe pain if treatment were delayed, as certified by a physician. The utilization review manager must respond to an urgent claim no later than 72 hours following receipt of the claim or, if additional information is required, request it within 24 hours and allow 48 hours for the covered person to respond. The Plan must then notify the claimant of the decision within 48 hours of receiving the additional information. No extensions are permitted.

**CONCURRENT CLAIM:** A concurrent claim is a pre-service claim that requires approval over a course of treatment, such as physical therapy. If the care is urgent, the Plan must respond to the covered person within 24 hours. When approved services are to be provided over an extended period of time, the covered person shall be entitled to a review prior to reduction or termination of benefits.

**POST-SERVICE CLAIM:** A Post-Service claim is any claim that is not a Pre-Service claim. Timely claim filing begins when the Claims Administrator receives a claim with re-priced information from any participating Network, if applicable. The Plan must give notice of approval within 30 days after a post-service claim is received. A post-service claim also allows a 15-day extension for reasons beyond Plan control if proper notice is given prior to the end of the first 30-day period.

**ALL DAYS MENTIONED IN THIS SECTION REFER TO "CALENDAR DAYS". ALL CLAIMS FOR BENEFITS MUST BE SUBMITTED WITHIN TWELVE (12) MONTHS FROM THE INCURRED DATE OF SERVICE TO BE ELIGIBLE FOR BENEFITS UNDER THIS PLAN.**

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of the 1st day of February, 2004, by and among Big Lots, Inc., an Ohio corporation ("BLI"), Big Lots Stores, Inc., an Ohio corporation ("BLSI") (BLI, BLSI and their respective affiliates, predecessor, successor, subsidiaries and other related companies are hereinafter jointly referred to as "Employer"), and Kent Larsson ("Executive").

## WITNESSETH:

WHEREAS, the Employer desires to engage Executive to perform services for the Employer and Executive desires to perform such services, on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the sufficiency of which is hereby mutually acknowledged, the Parties hereby agree as follows:

## 1. EMPLOYMENT.

- (a) DUTIES AND SERVICES. Employer hereby employs Executive as a Senior Vice President (or other appropriate title as designated by the Employer in its sole discretion) and Executive hereby accepts such employment, and shall perform services of a business, professional or commercial nature for the Employer in furtherance of the Employer's business. In performance of these duties, Executive shall be subject to the direction of and report to an individual holding one or more of the following titles: Chief Executive Officer, President, Chief Administrative Officer, Chief Operating Officer, and/or Executive Vice President of Employer. Employer agrees that should Executive report to an Executive Vice President, such person shall have responsibility for both Merchandising and Store Operations.
- (b) ADDITIONAL POSITIONS. Executive shall, without any compensation in addition to that which is specifically provided in this Agreement, serve as an officer of the Employer and in such substitute or further offices or positions with Employer as shall from time to time be reasonably requested by the Employer. Each office and position with the Employer, in which Executive may serve or to which he may be appointed, shall be consistent in title and duties with Executive's position. For service as a director or officer of Employer, which service shall in each instance be deemed to be at the request of the Employer and its Board of Directors, Executive shall be entitled to the protection of the applicable indemnification provisions of the charter and code of regulations of Employer and Employer agrees to indemnify and hold harmless Executive from and against any claims, liabilities, damages or expenses incurred by Executive in or arising out of the status, capacities and activities as an officer or director of the Employer, to the maximum extent permitted by law and in accordance with any agreement for indemnification. On any termination of his employment, Executive shall be deemed to have resigned from all offices and directorships held by Executive.
- (c) FULL TIME AND ATTENTION. Executive agrees to his employment as described herein and agrees to devote all of his time and best efforts to the performance of his duties under this Agreement. Except as expressly permitted herein, Executive shall not, without the prior written consent of Employer, directly or indirectly during the term of this Agreement, render services of a business, professional or commercial nature to any other person or firm, whether for compensation or otherwise. So long as it does not interfere with his full-time employment hereunder, Executive may attend to outside investments and serve as a director, trustee or officer of or otherwise participate in educational, welfare, social, religious and civic organizations.

## 2. TERM.

Subject to the provisions for termination provided in this Agreement, the term of this Agreement shall commence on February 1, 2004 and shall

continue thereafter until Executive's employment is terminated. This Agreement supersedes and replaces the July 29, 2002 Employment Agreement between Big Lots Stores, Inc. and its parent, affiliated, predecessor, successor, subsidiary and other related companies and Executive.

3. COMPENSATION AND BENEFITS.

- (a) BASE SALARY. As compensation for his services hereunder, the Employer shall pay Executive, an annual base salary (the "Base Salary") payable in equal installments on regular payroll dates designated by the Employer, an annual rate of Three Hundred Fifty Thousand Dollars (\$350,000). At least annually, the Compensation Committee of the BLI Board of Directors shall review Executive's performance and determine whether an increase in the Executive's Base Salary is merited. Provided, however, that in no event shall the Base Salary be adjusted to an amount lower than the annual rate initially enumerated in this Paragraph.
- (b) BENEFITS. Executive shall be entitled to participate in any group health care, hospitalization, life insurance, dental, disability or other benefit plans ("Benefit Plans") available to executives in the same or similar job classification (other than bonus compensation or performance plans to the extent that such plans, in the case of Executive, are in lieu of the bonus plan set forth in Paragraph 4 herein). Executive's participation in and benefits under any such Benefit Plans shall be in accordance with the terms and subject to the conditions specified in the governing document of the particular Benefit Plan(s).
- (c) VACATION AND SICK LEAVE. Executive shall be entitled to such periods of vacation and sick leave each year as provided under Employer's Vacation and Sick Leave Policy for executives of the same or similar job classification.
- (d) AUTOMOBILE ALLOWANCE. During the term of this Agreement, Employer shall provide Executive with an automobile or a monthly automobile allowance, in accordance with applicable policies of the Employer for executives of the same or similar job classification.

4. BONUS.

Executive shall be eligible to participate in the 1998 Big Lots, Inc. Key Associate Annual Compensation Plan, as amended (or any such successor plan, hereinafter "Bonus Program"). Executive shall be eligible to receive a bonus for the fiscal year beginning February 1, 2004, and for each subsequent fiscal year of employment completed during the term of this Agreement. Executive's bonus shall be an amount equal to the Base Salary at the end of such fiscal year multiplied by the Bonus Payout percentage as determined by the Bonus Program set each fiscal year by the Compensation Committee of BLI's Board of Directors. The Bonus Program is based upon the achievement of Employer's annual financial plan. The Target Bonus for Executive is 50% of Base Salary and the Stretch Bonus for Executive is 100% of Base Salary, both of which are defined by the Compensation Committee of BLI's Board of Directors and are subject to adjustment by BLI's Board of Directors; provided however, Executive's Target Bonus shall never fall below 50% of Base Salary and Executive's Stretch Bonus shall never fall below 100% of base salary. Payment of the Bonus described in this Paragraph is subject to the terms of the Bonus Program and any agreements issued thereunder.

5. EXPENSES.

Employer shall reimburse Executive during the term of this Agreement for travel, entertainment and other expenses reasonably incurred by Executive in the promotion of Employer's business. Executive shall furnish such documentation and/or receipts with respect to reimbursement to be paid as requested by the Employer.

6. TERMINATION.

The employment of Executive under this Agreement and term hereof shall be controlled by this Agreement, exclusively and without regard to any termination, severance, income continuation, or similar policies of Employer. Such employment may be terminated:

- (a) WITHOUT CAUSE, EMPLOYER TERMINATION. By Employer without cause at any time upon thirty (30) days notice to the Executive of such termination, or

(b) WITHOUT CAUSE, EXECUTIVE TERMINATION. By Executive without cause at any time upon thirty (30) days notice to the Employer of such termination, or

- (c) UPON DEATH OR LONG-TERM DISABILITY OF EXECUTIVE. By Employer upon the death or long-term disability of Executive, or
- (d) FOR CAUSE, EMPLOYER TERMINATION. By Employer for cause at any time. For purposes hereof, the term "cause" shall mean:
  - (i) Executive's conviction of fraud, a felony or other crime involving moral turpitude or Executive's commission of acts of embezzlement or theft in connection with his duties or in the course of his employment.
  - (ii) Executive engaging in Competitive Activities, disclosing confidential information, or his willful breach of any material provision of this Agreement.
  - (iii) The term "Competitive Activities" shall mean Executive's participation, without the written consent of the Board of Directors of the Employer, in any business enterprise if such business enterprise engages in direct competition with the Employer. For purposes of this Agreement, a business enterprise shall be considered in direct competition with the Employer, if such business enterprise's sales, related to any activity then engaged in by the Employer, amount to ten percent (10%) or more of such business enterprise's total sales or one percent (1%) of Employer's annual sales. "Competitive Activities" shall not include the mere ownership of securities in any publicly-traded enterprise and the exercise of rights appurtenant thereto.
  - (iv) Any termination of Executive for "cause" shall not be effective until Employer delivers written notice to Employee pursuant to the terms of Paragraph 11 of this Agreement.
  - (v) Any termination by reasons of the foregoing Subparagraphs (i)-(iv) shall not be in limitation of any other right or remedy the Employer may have under this Agreement, at law, in equity or otherwise.

7. EFFECT OF TERMINATION.

- (a) WITHOUT CAUSE EFFECT, EMPLOYER TERMINATION. In the event of the termination of Executive's employment by Employer pursuant to Paragraph 6(a) above, except as otherwise provided in Paragraph 5 of this Agreement, Employer shall have no obligation to pay any compensation or benefits of any kind to Executive other than,
  - (i) Base Salary that has been earned but not been paid up to and including the date of termination;
  - (ii) A prorata portion of the Bonus under this Agreement based upon the amount of time worked by the Executive in the fiscal year when such termination is effective, provided, however, that such prorata portion will be determined in the ordinary course of business and paid at such time following the close of the fiscal year that such other eligible executives receive such payment;
  - (iii) A continuation of Base Salary, automobile allowance (or use of present company automobile), any Benefit Plans for which Executive is eligible and enrolled, for twelve (12) months following the termination of this Agreement;
  - (iv) The Benefit Plans and automobile allowance/use contained in Subparagraph (iii), above, shall cease if during the twelve (12) months following termination, Executive is entitled to receive the same or similar benefits from another employer.
- (b) WITHOUT CAUSE EFFECT, EXECUTIVE TERMINATION. In the event of the termination of Executive's employment by Executive pursuant to Paragraph 6(b) above, Employer shall have no

obligation to pay any compensation or benefits of any kind to Executive other than Base Salary that has been earned but not been paid up to and including the date of termination, and Executive shall not be entitled to receive any Bonus under this Agreement or otherwise.

- (c) DEATH OR LONG-TERM DISABILITY. In the event of the termination of Executive's employment by reason of death or long-term disability pursuant to Paragraph 6(c) above, Employer shall have no obligation to pay any compensation or benefits of any kind to Executive or the Executive's estate, other than as follows:

- (i) Base Salary that has been earned but not been paid up to and including the date of termination;
- (ii) A prorata portion of the Bonus under this Agreement based upon the amount of time worked by the Executive in the fiscal year when such termination is effective, provided, however, that such prorata portion will be determined in the ordinary course of business and paid at such time following the close of the fiscal year that such other eligible executives receive such payment;



- (iii) In the case of long-term disability, a continuation of Base Salary and any Benefit Plans for which Executive is eligible and enrolled for six (6) months following the termination of this Agreement and any long-term disability benefits for which Executive is eligible under the Employer's long-term disability group insurance plan.
- (iv) The term "Long-Term Disability" shall be construed as it is defined in the Employer's long-term disability group insurance plan.
- (d) FOR CAUSE EFFECT. In the event of termination for any of the reasons for cause set forth in Paragraph 6(d) above, except as otherwise provided in Paragraph 5 of this Agreement, Executive shall not be entitled to further compensation or other benefits under this Agreement (other than as provided by law), except as to Base Salary that has been earned but not been paid up to and including the date of termination. Further, Executive shall not be entitled to receive any Bonus determined under this Agreement or otherwise.

#### 8. CHANGE IN CONTROL.

If there is a Change in Control (as defined herein) and Executive's employment is thereupon terminated or terminated within twenty four (24) months after the effective date thereof, Executive shall be entitled to the termination benefits as set forth in this Paragraph and its subparagraphs in lieu of other provisions of this Agreement. For purposes of this Paragraph, Executive's employment shall be deemed to have been terminated following a change in control only if Employer terminates such employment without cause (as defined in paragraph 6(a) above), or if a Constructive Termination occurs. "Constructive Termination" shall mean a resignation by Executive because of any material adverse change or material diminution in Executive's then current reporting relationships, job description, duties, responsibilities, compensation, perquisites, office or location of employment (as reasonably determined by Executive in his good faith discretion); provided, however, that Executive shall notify Employer in writing at least forty five (45) days in advance of any election by Executive to terminate his employment because of a Constructive Termination hereunder, specifying the nature of the alleged adverse change or diminution and Employer shall have a period of ten (10) business days after the receipt of such notice to cure such alleged adverse change or diminution before Executive shall be entitled to exercise any such rights and remedies. Executive shall not be entitled to the benefits available hereunder unless such notice is timely given.

- (a) CHANGE IN CONTROL BENEFITS. The benefits payable to Executive are as follows:
  - (i) Employer shall pay to Executive a lump sum cash payment, net of any applicable withholding taxes, in an amount equal to two (2) times his Base Salary immediately prior to the effective date of such Change in Control (the "Lump Sum Payment"); provided, that if there are fewer than twenty four (24) months remaining from the date of Executive's termination to Executive's normal retirement date at age 65, Employer shall instead pay Executive a prorata amount of the Lump Sum Payment based upon the number of months remaining until Executive's normal retirement date at age 65. The applicable amount shall be paid on or before the next regular payroll date following the termination of the Executive's employment.
  - (ii) In addition to the payment described in Paragraph 8(a)(i) above, Employer shall pay to Executive a lump sum cash payment, net of any applicable withholding taxes, in an amount equal to two (2) times the Executive's then current Stretch Bonus, as defined in and determined annually by the Compensation Committee of BLI's Board of Directors; provided, that:
    - (A) In the event the Executive's Bonus is undefined or is not subject to a maximum payout, the Executive's Bonus shall be deemed to be 200% of the Executive's then

current Base Salary, and

- (B) If there are fewer than twenty four (24) months remaining from the date of Executive's termination to Executive's normal retirement date at age 65, Employer shall instead pay Executive a prorata amount of the Lump Sum Bonus Payment based upon the number of months remaining until Executive's normal retirement date at age 65. Executive shall receive the Lump Sum Bonus Payment at the same time Executive receives the Lump Sum Payment described above.
- (iii) A continuation of any Benefit Plans for which Executive (and his spouse and/or dependents, if their participation is permitted under the terms of the subject plan) is eligible and enrolled for twelve (12)

months following the termination of this Agreement; provided, that Executive's participation in the plans referred to herein shall be terminated (other than as provided by law) when and to the extent that Executive is entitled to receive the same or similar benefits from another employer during such period. Executive's participation in and benefits under any such plan shall be on the terms and subject to the conditions specified in the governing document of the particular Benefit Plan(s).

(iv) If all or any portion of the amount payable under paragraph 8(a)(i) and 8(a)(ii) of this Agreement, either alone or together with other amounts that Executive is entitled to receive in connection with a Change in Control, constitutes "excess parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, that are subject to the excise tax imposed by Section 4999 of the Code (or any similar tax or assessment), the amounts payable hereunder shall be increased to the extent necessary to place Executive in the same after-tax position as Executive would have been had no such excise tax or assessment been imposed on any such payment paid or payable to Executive under Paragraph 8(a)(i) and 8(a)(ii) of this Agreement or any other payment that Executive may receive as a result of such Change in Control. The determination of the amount of any such tax or assessment and the resulting amount of incremental payment required hereby in connection therewith shall be made by the independent accounting firm employed by Employer immediately prior to the applicable Change in Control, within thirty (30) calendar days after the payment of the amount payable pursuant to Paragraph 8(a)(i) and 8(a)(ii) of this Agreement. Said incremental payment shall be made within five (5) business days after said determination has been made.

(v) If, after the date upon which any payment is to be made under this Paragraph, it is determined (pursuant to final judgment of a court of competent jurisdiction or an agreed upon tax assessment) that the amount of excise or other similar taxes or assessments payable by Executive is greater than the amount initially so determined, then Employer shall pay Executive an amount equal to the sum of (i) such additional excise or other similar taxes, plus (ii) any interest, fines and penalties resulting from such underpayment, plus (iii) an amount necessary to reimburse Executive for any income, excise or other tax or assessment payable by Executive with respect to the amounts specified in (i) and (ii) above, and the reimbursement provided by this clause (iii). Payment thereof shall be made within five (5) business days after the date upon which such subsequent determination is made.

(vi) In addition to the benefits described above, Executive shall be entitled to all rights derived under the Big Lots, Inc. 1996 Performance Incentive Plan, as Amended (f/k/a Consolidated Stores Corporation 1996 Performance Incentive Plan, as Amended) in the event of a "Change in Effective Control" (as defined in that plan).

(b) CHANGE IN CONTROL DEFINED. As used herein, "Change in Control" means any of the following events:

(i) Any person or group (as defined for purposes of Section 13(d) of the Securities Exchange Act of 1934) becomes the beneficial owner of, or has the right to acquire (by contract, option, warrant, conversion of convertible securities or otherwise), 20% or more of the outstanding equity securities of BLI entitled to vote for the election of directors;

- (ii) A majority of the Board of Directors of BLI is replaced within any period of two (2) years or less by directors not nominated and approved by a majority of the directors of BLI in office at the beginning of such period (or their successors so nominated and approved), or a majority of the Board of Directors of BLI at any date consists of persons not so nominated and approved;
  - (iii) The stockholders of BLI approve an agreement to reorganize, merge or consolidate with another corporation (other than BLSI or an affiliate); or
  - (iv) The stockholders of BLI adopt a plan or approve an agreement to sell or otherwise dispose of all or substantially all of BLI's assets (including without limitation, a plan of liquidation or dissolution), in a single transaction or series of related transactions.
- (c) EFFECTIVE DATE/TERMS. The effective date of any such Change in Control shall be the date upon which the last event occurs or last action taken such that the definition of such Change in Control (as set forth above) has been met. For purposes of this Agreement, the term "affiliate" shall mean:

- (i) Any person or entity qualified as part of an affiliated group which includes BLSI and BLI pursuant to Section 1504 of the Code; or
  - (ii) Any person or entity qualified as part of a parent-subsidary group of trades and businesses under common control within the meaning of Treasury Regulation Section 1.414(c-2)(b). Determination of affiliate shall be tested as of the date immediately prior to any event constituting a Change in Control. The other provisions of this Paragraph notwithstanding, the term "Change in Control" shall not mean any transaction, merger, consolidation, or reorganization in which BLI exchanges or offers to exchange newly issued or treasury shares in an amount less than 50% of the then outstanding equity securities of BLI entitled to vote for the election of directors, for 51% or more of the outstanding equity securities entitled to vote for the election of at least the majority of the directors of a corporation other than BLI or an affiliate thereof (the "Acquired Corporation"), or for all or substantially all of the assets of the Acquired Corporation.
- (d) LEGAL COUNSEL. If Executive hires legal counsel with respect to any alleged failure of Employer to comply with any terms of Paragraph 8 of this Agreement, or institutes any negotiation or institutes or responds to any legal action to assert or defend the validity of or to enforce Executive's rights under Paragraph 8 of this Agreement, or to recover damages for breach of Paragraph 8 of this Agreement, Employer shall pay Executive's actual expenses for attorneys' fees and disbursements, together with such additional payments, if any, as may be necessary so that the net after-tax payments so made to Executive equal such fees and disbursements; provided, however, that Executive shall be responsible for his own fees and expenses with respect to any lawsuit between Executive and Employer to enforce rights or obligations under this Paragraph 8 in which Employer is the prevailing party. The fees and expenses incurred by Executive in instituting or responding to any such negotiation or legal action shall be paid by Employer as they are incurred, in advance of the final disposition of the action or proceeding, upon receipt of an undertaking by Executive to repay such amounts if Employer is ultimately determined to be the prevailing party.
- (e) INTEREST. If any amount due Executive by the terms of this Paragraph 8 is not paid when due, then Employer shall pay interest on said amount at an annual rate equal to the base lending rate of National City Bank, Cleveland, Ohio, or successor, as in effect from time to time, for the period between the date on which such payment is due and the date said amount is paid.
- (f) NO RIGHT OF SETOFF. Employer's obligation to pay Executive the compensation and to make the arrangement required in this Paragraph 8 shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, any setoff, counterclaim, recoupment, defense or other right that Employer may have against Executive or otherwise. All amounts payable by Employer hereunder shall be paid without notice or demand. Subject to the proviso in this Paragraph 8, each and every payment made hereunder by Employer shall be final and Employer shall not seek to recover all or any part of such payment from Executive or from whosoever may be entitled thereto, for any reason whatsoever. Executive shall not be obligated to seek other employment or compensation or insurance in mitigation of any amount payable or arrangement made under this Paragraph 8, and the obtaining of any such other employment or compensation or insurance, except as otherwise provided in this Agreement, shall in no event effect any reduction of Employer's obligations to make the payments and arrangements required under this Paragraph 8.

9. COVENANTS OF EXECUTIVE.

- (a) COVENANTS. Executive acknowledges that the principal

businesses of Employer include the operation of its "Big Lots" discount general merchandise consumer goods retail outlets, the inventories of which are acquired primarily through special purchase situations such as overstocks, closeouts, liquidations, bankruptcies, wholesale distribution of overstock, distress, liquidation and other volume inventories, the operation of its Big Lots Furniture Stores, and its wholesale operations (the "Company Business"); and Employer is one of the limited number of entities who have developed such business; and the Company Business is national in scope; and Executive's work for Employer will give him access to the confidential affairs of Employer; and the agreements and covenants of Executive contained in Subparagraphs (i)-(iii)

herein ("Restrictive Covenants") are essential to the business and goodwill of Employer. Accordingly, Executive covenants and agrees that:

- (i) During the term of Executive's employment with Employer and for a period of one (1) year (the "Restricted Period") following the termination of his employment in any manner, Executive shall not in any location where Employer's retail stores are located throughout the United States, directly or indirectly, (1) engage in the Company Business for Executive's own account (other than pursuant to this Agreement), (2) render any services to any person engaged in such activities (other than Employer), or (3) render any services to, or in any manner become employed, by Wal-Mart, Kmart, Target, Dollar General, Family Dollar, Dollar Tree, Retail Ventures, Inc., Fred's, 99(cent) Stores, Canned Foods, Tuesday Morning, TJX Corporation, or any grocery store chain, regardless of size. Further, Employee agrees not to render any services to, or in any manner become employed by, any parent, subsidiary or other related entity of the above listed entities. However, in the event of a Change in Control as defined in this Agreement, the Restricted Period shall be for a period of six (6) months.
  - (ii) During the term of Executive's employment with Employer and for a period of two (2) years following the termination of his employment in any manner, Executive shall keep secret and retain in strictest confidence, and shall not use for his benefit or the benefit of others, all confidential matters relating to the Company Business hereafter learned by Executive, and shall not disclose them to anyone except with Employer's express written consent and except for information which is at the time of receipt or thereafter, becomes publicly known through no wrongful act of Executive, or is received from a third party not under an obligation to keep such information confidential and without breach of this Agreement.
  - (iii) During the term of Executive's employment with Employer and for a period of two (2) years following the termination of his employment in any manner, without Employer's prior written consent, Executive will not directly or indirectly, solicit, encourage to leave the employment of Employer or hire any employee of Employer.
- (b) ACKNOWLEDGMENT. Executive acknowledges that the foregoing restrictions are reasonable in light of the nature of the services the Employer provides. Executive and the Employer agree that the Employer has legitimate reasons for requiring such Restrictive Covenants from Executive. Executive acknowledges that he understands the restrictions and has had an opportunity to fully discuss these restrictions with the Employer and accepts the restrictions.
- (c) MAXIMUM ENFORCEABLE RESTRICTION. In the event that any or all of the Restrictive Covenants contained in this Paragraph shall be determined by a court of competent jurisdiction to be unenforceable by reason of the temporal restrictions being too great, or by reason that the range of activities covered are too great, or for any other reason, they shall be interpreted to extend over the maximum period of time, range of activities or other restrictions as to which they may be enforceable.
- (d) INJUNCTIVE RELIEF. The Parties agree that a breach of the Restrictive Covenants contained in this Paragraph may cause irreparable damage to the Employer, the extent of which may be difficult to ascertain, and that the award of damages may not be adequate relief. Therefore, Executive agrees that, in the event of a breach or a threatened breach of the Restrictive Covenants, the Employer may institute an action to compel the specific performance of same and obtain injunctive relief, without bond; Executive agrees not to assert adequacy of money

damages as a defense and agrees that such remedy shall be cumulative, not exclusive, and in addition to any other available remedies, and that the Employer may require Executive to account for and pay over to Employer all compensation, profits, monies, accruals, increments, or other benefits derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants. Employer may set off any amounts finally determined by a court of competent jurisdiction to be due it under this Paragraph against any amounts owed to Executive. The Parties agree that any action for breach of the Restrictive Covenants and/or injunctive relief shall be venued in the Court of Common Pleas, Franklin County, Ohio, and that Ohio law governs the terms of this Agreement.

- (e) TOLLING PERIOD. Executive acknowledges that under the terms of the Restrictive Covenants contained in this Paragraph, the Employer is entitled to receive a period of one (1) year of non-competition, and two (2) years of non-solicitation and confidentiality immediately following termination of Executive's employment.



Executive agrees that if any of these obligations to the Employer are breached during the one (1) year period or non-competition, and/or the two (2) year period of non-solicitation and confidentiality, then the time period will be extended for the length of time that Executive failed to fulfill his obligations.

10. WITHHOLDING TAXES.

Except as otherwise provided, all payments to Executive, including the bonus compensation under this Agreement, shall be subject to withholding on account of federal, state, and local taxes as required by law.

11. NOTICES.

Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission or sent by certified or priority mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, or sent by facsimile transmission or, if mailed, five (5) days after the date of deposit in the United States mail as follows:

(a) If to the Employer to: Big Lots Stores, Inc.  
300 Phillipi Road  
Columbus, Ohio 43228-1310  
Attention: General Counsel

With a copy to: Big Lots Stores, Inc.  
300 Phillipi Road  
Columbus, Ohio 43228-1310  
Attention: Chief Executive Officer

(b) If to the Executive to: Kent Larsson  
9333 Lerwick Drive  
Dublin, Ohio 43017

(c) Change of Address. Any such person may by notice given in accordance with this Paragraph to the other parties hereto, designate another address or person for receipt by such person of notices hereunder.

12. SEVERABLE PROVISIONS.

The provisions of this Agreement are severable, and if any one or more provisions may be determined to be invalid or otherwise unenforceable, in whole or in part, the remaining provisions and any partially unenforceable provision, to the maximum extent enforceable, shall, nevertheless, be binding and enforceable.

13. MODIFICATION.

This Agreement collectively sets forth the entire understanding of the Parties with respect to the subject matter hereof, supersedes all existing agreements between them concerning such subject matter, and may be modified only by a written instrument duly executed by each party.

14. WAIVER.

Any waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Agreement. The failure of a party to insist upon strict adherence to any term of this Agreement on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. Any waiver must be in writing.

15. BINDING EFFECT.

Executive's rights and obligations under this Agreement shall not be transferable by assignment or otherwise, such rights shall not be subject to commutation, encumbrance, or the claims of Executive's creditors, and any attempt to do any of the foregoing shall be void. The provisions of this Agreement shall be binding upon and inure to the benefit of Executive and his heirs and personal representatives, and shall be binding upon and inure to the benefit of the Employer and its successors.

16. NO THIRD-PARTY BENEFICIARIES.

This Agreement does not create, and shall not be construed as creating, any rights enforceable by any person not a party to this Agreement.

17. HEADINGS.

The headings in this Agreement are solely for the convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

18. COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

19. GOVERNING LAW, JURISDICTION AND ARBITRATION.

This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio, without giving effect to conflict of laws. Any dispute arising out of or relating to this Agreement or any breach of this Agreement, with the exceptions of the Restrictive Covenants contained in Paragraph 9, shall be submitted to and determined in binding arbitration, and such method shall be the exclusive method for resolving such disputes. This provision includes any and all claims and remedies that the Executive could bring against the Employer arising out of his employment, including, but not limited to, claims for negligence, wrongful discharge, discrimination, harassment, intentional tort, infliction of emotional distress, defamation, or loss of consortium. Submission may be made by either party and must be made within thirty (30) days subsequent to the dispute arising. Thereafter, the parties hereto shall take such steps as are necessary to assure that the dispute will be promptly settled by arbitration, in accordance with the then-current Commercial Arbitration Rules of the American Arbitration Association, within ninety (90) days of its submission. The arbitration shall be conducted by a single arbitrator selected by the parties. If the parties have not selected an arbitrator within ten (10) days of written demand for arbitration, the arbitrator shall be selected by the American Arbitration Association. Each party shall bear all its own legal fees and expenses. All arbitration proceedings shall be conducted in the federal judicial district where Executive maintains his principal place of employment for the Company. Judgment upon any award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

20. EMPLOYER PROPERTY.

Upon termination of Executive's employment for any reason, or at any time at the Employer's request, Executive shall deliver up to the Employer, all property, keys, materials, documents, records, manuals, notebooks, or papers and any copies thereof maintained in any form that in any way relate to the business and activities of the Employer that may be in the possession, or under the control of Executive.

21. CONFLICTING AGREEMENTS.

Executive represents and warrants that he is free to enter into this Agreement and that Executive has not made and will not make any agreements in conflict with this Agreement.

22. SURVIVAL.

The covenants, agreements, representations, and warranties contained in or made pursuant to this Agreement shall survive Executive's termination of employment, whatever the reason for termination of such employment, and shall survive any termination of this Agreement, irrespective of any investigation made by or on behalf of any party.

WHEREUPON, the Parties hereto voluntarily enter into this Agreement as of this 29th day of March, 2004.

Big Lots, Inc.

/s/ Albert J. Bell

By: Albert J. Bell

Its: Chief Administrative Officer

Executive

/s/ Kent Larsson

Printed Name: Kent Larsson

Big Lots Stores, Inc.

/s/ Brad A. Waite

By: Brad A. Waite

Its: Executive Vice President

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of the 1st day of February, 2004, by and among Big Lots, Inc., an Ohio corporation ("BLI"), Big Lots Stores, Inc., an Ohio corporation ("BLSI") (BLI, BLSI and their respective affiliates, predecessor, successor, subsidiaries and other related companies are hereinafter jointly referred to as "Employer"), and Donald A. Mierzwa ("Executive").

## WITNESSETH:

WHEREAS, the Employer desires to engage Executive to perform services for the Employer and Executive desires to perform such services, on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the sufficiency of which is hereby mutually acknowledged, the Parties hereby agree as follows:

## 1. EMPLOYMENT.

- (a) DUTIES AND SERVICES. Employer hereby employs Executive as an Executive Vice President (or other appropriate title as designated by the Employer in its sole discretion) and Executive hereby accepts such employment, and shall perform services of a business, professional or commercial nature for the Employer in furtherance of the Employer's business. In performance of these duties, Executive shall be subject to the direction of and report to an individual holding one or more of the following titles: Chief Executive Officer, President, and/or Chief Administrative Officer of Employer.
- (b) ADDITIONAL POSITIONS. Executive shall, without any compensation in addition to that which is specifically provided in this Agreement, serve as an officer of the Employer and in such substitute or further offices or positions with Employer as shall from time to time be reasonably requested by the Employer. Each office and position with the Employer, in which Executive may serve or to which he may be appointed, shall be consistent in title and duties with Executive's position. For service as a director or officer of Employer, which service shall in each instance be deemed to be at the request of the Employer and its Board of Directors, Executive shall be entitled to the protection of the applicable indemnification provisions of the charter and code of regulations of Employer and Employer agrees to indemnify and hold harmless Executive from and against any claims, liabilities, damages or expenses incurred by Executive in or arising out of the status, capacities and activities as an officer or director of the Employer, to the maximum extent permitted by law and in accordance with any agreement for indemnification. On any termination of his employment, Executive shall be deemed to have resigned from all offices and directorships held by Executive.
- (c) FULL TIME AND ATTENTION. Executive agrees to his employment as described herein and agrees to devote all of his time and best efforts to the performance of his duties under this Agreement. Except as expressly permitted herein, Executive shall not, without the prior written consent of Employer, directly or indirectly during the term of this Agreement, render services of a business, professional or commercial nature to any other person or firm, whether for compensation or otherwise. So long as it does not interfere with his full-time employment hereunder, Executive may attend to outside investments and serve as a director, trustee or officer of or otherwise participate in educational, welfare, social, religious and civic organizations.

## 2. TERM.

Subject to the provisions for termination provided in this Agreement, the term of this Agreement shall commence on February 1, 2004 and shall continue thereafter until Executive's employment is terminated. This Agreement supersedes and replaces the July 29, 2002 Employment Agreement between Big Lots Stores, Inc. and its parent, affiliated, predecessor, successor, subsidiary and other related companies and

Executive.

3. COMPENSATION AND BENEFITS.

- (a) BASE SALARY. As compensation for his services hereunder, the Employer shall pay Executive, an annual base salary (the "Base Salary") payable in equal installments on regular payroll dates designated by the Employer, an annual rate of Three Hundred Fifty Thousand Dollars (\$350,000). At least annually, the Compensation Committee of the BLI Board of Directors shall review Executive's performance and determine whether an increase in the Executive's Base Salary is merited. Provided, however, that in no event shall the Base Salary be adjusted to an amount lower than the annual rate initially enumerated in this Paragraph.
- (b) BENEFITS. Executive shall be entitled to participate in any group health care, hospitalization, life insurance, dental, disability or other benefit plans ("Benefit Plans") available to executives in the same or similar job classification (other than bonus compensation or performance plans to the extent that such plans, in the case of Executive, are in lieu of the bonus plan set forth in Paragraph 4 herein). Executive's participation in and benefits under any such Benefit Plans shall be in accordance with the terms and subject to the conditions specified in the governing document of the particular Benefit Plan(s).
- (c) VACATION AND SICK LEAVE. Executive shall be entitled to such periods of vacation and sick leave each year as provided under Employer's Vacation and Sick Leave Policy for executives of the same or similar job classification.
- (d) AUTOMOBILE ALLOWANCE. During the term of this Agreement, Employer shall provide Executive with an automobile or a monthly automobile allowance, in accordance with applicable policies of the Employer for executives of the same or similar job classification.

4. BONUS.

Executive shall be eligible to participate in the 1998 Big Lots, Inc. Key Associate Annual Compensation Plan, as amended (or any such successor plan, hereinafter "Bonus Program"). Executive shall be eligible to receive a bonus for the fiscal year beginning February 1, 2004, and for each subsequent fiscal year of employment completed during the term of this Agreement. Executive's bonus shall be an amount equal to the Base Salary at the end of such fiscal year multiplied by the Bonus Payout percentage as determined by the Bonus Program set each fiscal year by the Compensation Committee of BLI's Board of Directors. The Bonus Program is based upon the achievement of Employer's annual financial plan. The Target Bonus for Executive is 60% of Base Salary and the Stretch Bonus for Executive is 120% of Base Salary, both of which are defined by the Compensation Committee of BLI's Board of Directors and are subject to adjustment by BLI's Board of Directors; provided however, Executive's Target Bonus shall never fall below 60% of Base Salary and Executive's Stretch Bonus shall never fall below 120% of base salary. Payment of the Bonus described in this Paragraph is subject to the terms of the Bonus Program and any agreements issued thereunder.

5. EXPENSES.

Employer shall reimburse Executive during the term of this Agreement for travel, entertainment and other expenses reasonably incurred by Executive in the promotion of Employer's business. Executive shall furnish such documentation and/or receipts with respect to reimbursement to be paid as requested by the Employer.

6. TERMINATION.

The employment of Executive under this Agreement and term hereof shall be controlled by this Agreement, exclusively and without regard to any termination, severance, income continuation, or similar policies of Employer. Such employment may be terminated:

- (a) WITHOUT CAUSE, EMPLOYER TERMINATION. By Employer without cause at any time upon thirty (30) days notice to the Executive of such termination, or

(b) WITHOUT CAUSE, EXECUTIVE TERMINATION. By Executive without cause at any time upon thirty (30) days notice to

the Employer of such termination, or

- (c) UPON DEATH OR LONG-TERM DISABILITY OF EXECUTIVE. By Employer upon the death or long-term disability of Executive, or
- (d) FOR CAUSE, EMPLOYER TERMINATION. By Employer for cause at any time. For purposes hereof, the term "cause" shall mean:
  - (i) Executive's conviction of fraud, a felony or other crime involving moral turpitude or Executive's commission of acts of embezzlement or theft in connection with his duties or in the course of his employment.
  - (ii) Executive engaging in Competitive Activities, disclosing confidential information, or his willful breach of any material provision of this Agreement.
  - (iii) The term "Competitive Activities" shall mean Executive's participation, without the written consent of the Board of Directors of the Employer, in any business enterprise if such business enterprise engages in direct competition with the Employer. For purposes of this Agreement, a business enterprise shall be considered in direct competition with the Employer, if such business enterprise's sales, related to any activity then engaged in by the Employer, amount to ten percent (10%) or more of such business enterprise's total sales or one percent (1%) of Employer's annual sales. "Competitive Activities" shall not include the mere ownership of securities in any publicly-traded enterprise and the exercise of rights appurtenant thereto.
  - (iv) Any termination of Executive for "cause" shall not be effective until Employer delivers written notice to Employee pursuant to the terms of Paragraph 11 of this Agreement.
  - (v) Any termination by reasons of the foregoing Subparagraphs (i)-(iv) shall not be in limitation of any other right or remedy the Employer may have under this Agreement, at law, in equity or otherwise.

7. EFFECT OF TERMINATION.

- (a) WITHOUT CAUSE EFFECT, EMPLOYER TERMINATION. In the event of the termination of Executive's employment by Employer pursuant to Paragraph 6(a) above, except as otherwise provided in Paragraph 5 of this Agreement, Employer shall have no obligation to pay any compensation or benefits of any kind to Executive other than,
  - (i) Base Salary that has been earned but not been paid up to and including the date of termination;
  - (ii) A prorata portion of the Bonus under this Agreement based upon the amount of time worked by the Executive in the fiscal year when such termination is effective, provided, however, that such prorata portion will be determined in the ordinary course of business and paid at such time following the close of the fiscal year that such other eligible executives receive such payment;
  - (iii) A continuation of Base Salary, automobile allowance (or use of present company automobile), any Benefit Plans for which Executive is eligible and enrolled, for twelve (12) months following the termination of this Agreement;
  - (iv) The Benefit Plans and automobile allowance/use contained in Subparagraph (iii), above, shall cease if during the twelve (12) months following termination, Executive is entitled to receive the same or similar benefits from another employer.
- (b) WITHOUT CAUSE EFFECT, EXECUTIVE TERMINATION. In the event of



the termination of Executive's employment by Executive pursuant to Paragraph 6(b) above, Employer shall have no obligation to pay any compensation or benefits of any kind to Executive other than Base Salary that has been earned but not been paid up to and including the date of termination, and Executive shall not be entitled to receive any Bonus under this Agreement or otherwise.

- (c) DEATH OR LONG-TERM DISABILITY. In the event of the termination of Executive's employment by reason of death or long-term disability pursuant to Paragraph 6(c) above, Employer shall have no obligation to pay any compensation or benefits of any kind to Executive or the Executive's estate, other than as follows:

- (i) Base Salary that has been earned but not been paid up to and including the date of termination;
- (ii) A prorata portion of the Bonus under this Agreement based upon the amount of time worked by the Executive in the fiscal year when such termination is effective, provided, however, that such prorata portion will be determined in the ordinary course of business and paid at such time

following the close of the fiscal year that such other eligible executives receive such payment;

(iii) In the case of long-term disability, a continuation of Base Salary and any Benefit Plans for which Executive is eligible and enrolled for six (6) months following the termination of this Agreement and any long-term disability benefits for which Executive is eligible under the Employer's long-term disability group insurance plan.

(iv) The term "Long-Term Disability" shall be construed as it is defined in the Employer's long-term disability group insurance plan.

(d) FOR CAUSE EFFECT. In the event of termination for any of the reasons for cause set forth in Paragraph 6(d) above, except as otherwise provided in Paragraph 5 of this Agreement, Executive shall not be entitled to further compensation or other benefits under this Agreement (other than as provided by law), except as to Base Salary that has been earned but not been paid up to and including the date of termination. Further, Executive shall not be entitled to receive any Bonus determined under this Agreement or otherwise.

#### 8. CHANGE IN CONTROL.

If there is a Change in Control (as defined herein) and Executive's employment is thereupon terminated or terminated within twenty four (24) months after the effective date thereof, Executive shall be entitled to the termination benefits as set forth in this Paragraph and its subparagraphs in lieu of other provisions of this Agreement. For purposes of this Paragraph, Executive's employment shall be deemed to have been terminated following a change in control only if Employer terminates such employment without cause (as defined in paragraph 6(a) above), or if a Constructive Termination occurs. "Constructive Termination" shall mean a resignation by Executive because of any material adverse change or material diminution in Executive's then current reporting relationships, job description, duties, responsibilities, compensation, perquisites, office or location of employment (as reasonably determined by Executive in his good faith discretion); provided, however, that Executive shall notify Employer in writing at least forty five (45) days in advance of any election by Executive to terminate his employment because of a Constructive Termination hereunder, specifying the nature of the alleged adverse change or diminution and Employer shall have a period of ten (10) business days after the receipt of such notice to cure such alleged adverse change or diminution before Executive shall be entitled to exercise any such rights and remedies. Executive shall not be entitled to the benefits available hereunder unless such notice is timely given.

(a) CHANGE IN CONTROL BENEFITS. The benefits payable to Executive are as follows:

(i) Employer shall pay to Executive a lump sum cash payment, net of any applicable withholding taxes, in an amount equal to two (2) times his Base Salary immediately prior to the effective date of such Change in Control (the "Lump Sum Payment"); provided, that if there are fewer than twenty four (24) months remaining from the date of Executive's termination to Executive's normal retirement date at age 65, Employer shall instead pay Executive a prorata amount of the Lump Sum Payment based upon the number of months remaining until Executive's normal retirement date at age 65. The applicable amount shall be paid on or before the next regular payroll date following the termination of the Executive's employment.

(ii) In addition to the payment described in Paragraph 8(a)(i) above, Employer shall pay to Executive a lump sum cash payment, net of any applicable withholding taxes, in an amount equal to two (2) times the Executive's then current Stretch Bonus, as defined in and determined annually by the Compensation Committee of BLI's Board of Directors; provided, that:

(A) In the event the Executive's Bonus is

undefined or is not subject to a maximum payout, the Executive's Bonus shall be deemed to be 200% of the Executive's then current Base Salary, and

- (B) If there are fewer than twenty four (24) months remaining from the date of Executive's termination to Executive's normal retirement date at age 65, Employer shall instead pay Executive a prorata amount of the Lump Sum Bonus Payment based upon the number of months remaining until Executive's normal retirement date at age 65. Executive shall receive the Lump Sum Bonus Payment at the same time Executive receives the Lump Sum Payment described above.

- (iii) A continuation of any Benefit Plans for which Executive (and his spouse and/or dependents, if their participation is permitted under the terms of the subject plan) is eligible and enrolled for twelve (12) months following the termination of this Agreement; provided, that Executive's participation in the plans referred to herein shall be terminated (other than as provided by law) when and to the extent that Executive is entitled to receive the same or similar benefits from another employer during such period. Executive's participation in and benefits under any such plan shall be on the terms and subject to the conditions specified in the governing document of the particular Benefit Plan(s).
- (iv) If all or any portion of the amount payable under paragraph 8(a)(i) and 8(a)(ii) of this Agreement, either alone or together with other amounts that Executive is entitled to receive in connection with a Change in Control, constitutes "excess parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, that are subject to the excise tax imposed by Section 4999 of the Code (or any similar tax or assessment), the amounts payable hereunder shall be increased to the extent necessary to place Executive in the same after-tax position as Executive would have been had no such excise tax or assessment been imposed on any such payment paid or payable to Executive under Paragraph 8(a)(i) and 8(a)(ii) of this Agreement or any other payment that Executive may receive as a result of such Change in Control. The determination of the amount of any such tax or assessment and the resulting amount of incremental payment required hereby in connection therewith shall be made by the independent accounting firm employed by Employer immediately prior to the applicable Change in Control, within thirty (30) calendar days after the payment of the amount payable pursuant to Paragraph 8(a)(i) and 8(a)(ii) of this Agreement. Said incremental payment shall be made within five (5) business days after said determination has been made.
- (v) If, after the date upon which any payment is to be made under this Paragraph, it is determined (pursuant to final judgment of a court of competent jurisdiction or an agreed upon tax assessment) that the amount of excise or other similar taxes or assessments payable by Executive is greater than the amount initially so determined, then Employer shall pay Executive an amount equal to the sum of (i) such additional excise or other similar taxes, plus (ii) any interest, fines and penalties resulting from such underpayment, plus (iii) an amount necessary to reimburse Executive for any income, excise or other tax or assessment payable by Executive with respect to the amounts specified in (i) and (ii) above, and the reimbursement provided by this clause (iii). Payment thereof shall be made within five (5) business days after the date upon which such subsequent determination is made.
- (vi) In addition to the benefits described above, Executive shall be entitled to all rights derived under the Big Lots, Inc. 1996 Performance Incentive Plan, as Amended (f/k/a Consolidated Stores Corporation 1996 Performance Incentive Plan, as Amended) in the event of a "Change in Effective Control" (as defined in that plan).

(b) CHANGE IN CONTROL DEFINED. As used herein, "Change in Control" means any of the following events:

- (i) Any person or group (as defined for purposes of Section 13(d) of the Securities Exchange Act of 1934) becomes the beneficial owner of, or has the right to acquire (by contract, option, warrant, conversion of

convertible securities or otherwise), 20% or more of the outstanding equity securities of BLI entitled to vote for the election of directors;

- (ii) A majority of the Board of Directors of BLI is replaced within any period of two (2) years or less by directors not nominated and approved by a majority of the directors of BLI in office at the beginning of such period (or their successors so nominated and approved), or a majority of the Board of Directors of BLI at any date consists of persons not so nominated and approved;
- (iii) The stockholders of BLI approve an agreement to reorganize, merge or consolidate with another corporation (other than BLSI or an affiliate); or
- (iv) The stockholders of BLI adopt a plan or approve an agreement to sell or otherwise dispose of all or substantially all of BLI's assets (including without limitation, a plan of liquidation or dissolution), in a single transaction or series of related transactions.

- (c) **EFFECTIVE DATE/TERMS.** The effective date of any such Change in Control shall be the date upon which the last event occurs or last action taken such that the definition of such Change in Control (as set forth above) has been met. For purposes of this Agreement, the term "affiliate" shall mean:
- (i) Any person or entity qualified as part of an affiliated group which includes BLSI and BLI pursuant to Section 1504 of the Code; or
  - (iii) Any person or entity qualified as part of a parent-subsidiary group of trades and businesses under common control within the meaning of Treasury Regulation Section 1.414(c-2)(b). Determination of affiliate shall be tested as of the date immediately prior to any event constituting a Change in Control. The other provisions of this Paragraph notwithstanding, the term "Change in Control" shall not mean any transaction, merger, consolidation, or reorganization in which BLI exchanges or offers to exchange newly issued or treasury shares in an amount less than 50% of the then outstanding equity securities of BLI entitled to vote for the election of directors, for 51% or more of the outstanding equity securities entitled to vote for the election of at least the majority of the directors of a corporation other than BLI or an affiliate thereof (the "Acquired Corporation"), or for all or substantially all of the assets of the Acquired Corporation.
- (d) **LEGAL COUNSEL.** If Executive hires legal counsel with respect to any alleged failure of Employer to comply with any terms of Paragraph 8 of this Agreement, or institutes any negotiation or institutes or responds to any legal action to assert or defend the validity of or to enforce Executive's rights under Paragraph 8 of this Agreement, or to recover damages for breach of Paragraph 8 of this Agreement, Employer shall pay Executive's actual expenses for attorneys' fees and disbursements, together with such additional payments, if any, as may be necessary so that the net after-tax payments so made to Executive equal such fees and disbursements; provided, however, that Executive shall be responsible for his own fees and expenses with respect to any lawsuit between Executive and Employer to enforce rights or obligations under this Paragraph 8 in which Employer is the prevailing party. The fees and expenses incurred by Executive in instituting or responding to any such negotiation or legal action shall be paid by Employer as they are incurred, in advance of the final disposition of the action or proceeding, upon receipt of an undertaking by Executive to repay such amounts if Employer is ultimately determined to be the prevailing party.
- (e) **INTEREST.** If any amount due Executive by the terms of this Paragraph 8 is not paid when due, then Employer shall pay interest on said amount at an annual rate equal to the base lending rate of National City Bank, Cleveland, Ohio, or successor, as in effect from time to time, for the period between the date on which such payment is due and the date said amount is paid.
- (f) **NO RIGHT OF SETOFF.** Employer's obligation to pay Executive the compensation and to make the arrangement required in this Paragraph 8 shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, any setoff, counterclaim, recoupment, defense or other right that Employer may have against Executive or otherwise. All amounts payable by Employer hereunder shall be paid without notice or demand. Subject to the proviso in this Paragraph 8, each and every payment made hereunder by Employer shall be final and Employer shall not seek to recover all or any part of such payment from Executive or from whosoever may be entitled thereto, for any reason whatsoever. Executive shall not be obligated to seek other employment or compensation or insurance in mitigation of any amount payable or arrangement made under this Paragraph 8, and the obtaining of any such other employment or compensation or insurance, except as otherwise provided in this Agreement, shall in no

event effect any reduction of Employer's obligations to make the payments and arrangements required under this Paragraph 8.

9. COVENANTS OF EXECUTIVE.

- (a) Covenants. Executive acknowledges that the principal businesses of Employer include the operation of its "Big Lots" discount general merchandise consumer goods retail outlets, the inventories of which are acquired primarily through special purchase situations such as overstocks, closeouts, liquidations, bankruptcies, wholesale distribution of overstock, distress, liquidation and other volume inventories, the operation of its Big Lots Furniture Stores, and its wholesale operations (the "Company Business"); and

Employer is one of the limited number of entities who have developed such business; and the Company Business is national in scope; and Executive's work for Employer will give him access to the confidential affairs of Employer; and the agreements and covenants of Executive contained in Subparagraphs (i)-(iii) herein ("Restrictive Covenants") are essential to the business and goodwill of Employer. Accordingly, Executive covenants and agrees that:

- (i) During the term of Executive's employment with Employer and for a period of one (1) year (the "Restricted Period") following the termination of his employment in any manner, Executive shall not in any location where Employer's retail stores are located throughout the United States, directly or indirectly, (1) engage in the Company Business for Executive's own account (other than pursuant to this Agreement), (2) render any services to any person engaged in such activities (other than Employer), or (3) render any services to, or in any manner become employed, by Wal-Mart, Kmart, Target, Dollar General, Family Dollar, Dollar Tree, Retail Ventures, Inc., Fred's, 99(cent) Stores, Canned Foods, Tuesday Morning, TJX Corporation, or any grocery store chain, regardless of size. Further, Employee agrees not to render any services to, or in any manner become employed by, any parent, subsidiary or other related entity of the above listed entities. However, in the event of a Change in Control as defined in this Agreement, the Restricted Period shall be for a period of six (6) months.
- (ii) During the term of Executive's employment with Employer and for a period of two (2) years following the termination of his employment in any manner, Executive shall keep secret and retain in strictest confidence, and shall not use for his benefit or the benefit of others, all confidential matters relating to the Company Business hereafter learned by Executive, and shall not disclose them to anyone except with Employer's express written consent and except for information which is at the time of receipt or thereafter, becomes publicly known through no wrongful act of Executive, or is received from a third party not under an obligation to keep such information confidential and without breach of this Agreement.
- (iii) During the term of Executive's employment with Employer and for a period of two (2) years following the termination of his employment in any manner, without Employer's prior written consent, Executive will not directly or indirectly, solicit, encourage to leave the employment of Employer or hire any employee of Employer.

- (b) **ACKNOWLEDGMENT.** Executive acknowledges that the foregoing restrictions are reasonable in light of the nature of the services the Employer provides. Executive and the Employer agree that the Employer has legitimate reasons for requiring such Restrictive Covenants from Executive. Executive acknowledges that he understands the restrictions and has had an opportunity to fully discuss these restrictions with the Employer and accepts the restrictions.
- (c) **MAXIMUM ENFORCEABLE RESTRICTION.** In the event that any or all of the Restrictive Covenants contained in this Paragraph shall be determined by a court of competent jurisdiction to be unenforceable by reason of the temporal restrictions being too great, or by reason that the range of activities covered are too great, or for any other reason, they shall be interpreted to extend over the maximum period of time, range of activities or other restrictions as to which they may be enforceable.
- (d) **INJUNCTIVE RELIEF.** The Parties agree that a breach of the Restrictive Covenants contained in this Paragraph may cause irreparable damage to the Employer, the extent of which may be difficult to ascertain, and that the award of damages may not



be adequate relief. Therefore, Executive agrees that, in the event of a breach or a threatened breach of the Restrictive Covenants, the Employer may institute an action to compel the specific performance of same and obtain injunctive relief, without bond; Executive agrees not to assert adequacy of money damages as a defense and agrees that such remedy shall be cumulative, not exclusive, and in addition to any other available remedies, and that the Employer may require Executive to account for and pay over to Employer all compensation, profits, monies, accruals, increments, or other benefits derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants. Employer may set off any amounts finally determined by a court of competent jurisdiction to be due it under this Paragraph against any amounts owed to Executive. The Parties agree that any action for breach of the Restrictive Covenants and/or injunctive relief shall be venued in the Court of Common Pleas, Franklin County, Ohio, and that Ohio law governs the terms of this Agreement.

- (e) TOLLING PERIOD. Executive acknowledges that under the terms of the Restrictive Covenants contained in this Paragraph, the Employer is entitled to receive a period of one (1) year of non-competition, and two (2) years of non-solicitation and confidentiality immediately following termination of Executive's employment. Executive agrees that if any of these obligations to the Employer are breached during the one (1) year period or non-competition, and/or the two (2) year period of non-solicitation and confidentiality, then the time period will be extended for the length of time that Executive failed to fulfill his obligations.

10. WITHHOLDING TAXES.

Except as otherwise provided, all payments to Executive, including the bonus compensation under this Agreement, shall be subject to withholding on account of federal, state, and local taxes as required by law.

11. NOTICES.

Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission or sent by certified or priority mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, or sent by facsimile transmission or, if mailed, five (5) days after the date of deposit in the United States mail as follows:

- (a) If to the Employer to: Big Lots Stores, Inc.  
300 Phillipi Road  
Columbus, Ohio 43228-1310  
Attention: General Counsel
- With a copy to: Big Lots Stores, Inc.  
300 Phillipi Road  
Columbus, Ohio 43228-1310  
Attention: Chief Executive Officer
- (b) If to the Executive to: Donald A. Mierzwa  
5739 Medallion Drive  
Westerville, Ohio 43082
- (c) CHANGE OF ADDRESS. Any such person may by notice given in accordance with this Paragraph to the other parties hereto, designate another address or person for receipt by such person of notices hereunder.

12. SEVERABLE PROVISIONS.

The provisions of this Agreement are severable, and if any one or more provisions may be determined to be invalid or otherwise unenforceable, in whole or in part, the remaining provisions and any partially unenforceable provision, to the maximum extent enforceable, shall, nevertheless, be binding and enforceable.

13. MODIFICATION.

This Agreement collectively sets forth the entire understanding of the Parties with respect to the subject matter hereof, supersedes all existing agreements between them concerning such subject matter, and may be modified only by a written instrument duly executed by each party.

14. WAIVER.

Any waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Agreement. The failure

of a party to insist upon strict adherence to any term of this Agreement on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. Any waiver must be in writing.

15. BINDING EFFECT.

Executive's rights and obligations under this Agreement shall not be transferable by assignment or otherwise, such rights shall not be subject to commutation, encumbrance, or the claims of Executive's creditors, and any attempt to do any of the foregoing shall be void. The provisions of this Agreement shall be binding upon and inure to the benefit of Executive and his heirs and personal representatives, and shall be binding upon and inure to the benefit of the Employer and its successors.

16. NO THIRD-PARTY BENEFICIARIES.

This Agreement does not create, and shall not be construed as creating, any rights enforceable by any person not a party to this Agreement.

17. HEADINGS.

The headings in this Agreement are solely for the convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

18. COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

19. GOVERNING LAW, JURISDICTION AND ARBITRATION.

This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio, without giving effect to conflict of laws. Any dispute arising out of or relating to this Agreement or any breach of this Agreement, with the exceptions of the Restrictive Covenants contained in Paragraph 9, shall be submitted to and determined in binding arbitration, and such method shall be the exclusive method for resolving such disputes. This provision includes any and all claims and remedies that the Executive could bring against the Employer arising out of his employment, including, but not limited to, claims for negligence, wrongful discharge, discrimination, harassment, intentional tort, infliction of emotional distress, defamation, or loss of consortium. Submission may be made by either party and must be made within thirty (30) days subsequent to the dispute arising. Thereafter, the parties hereto shall take such steps as are necessary to assure that the dispute will be promptly settled by arbitration, in accordance with the then-current Commercial Arbitration Rules of the American Arbitration Association, within ninety (90) days of its submission. The arbitration shall be conducted by a single arbitrator selected by the parties. If the parties have not selected an arbitrator within ten (10) days of written demand for arbitration, the arbitrator shall be selected by the American Arbitration Association. Each party shall bear all its own legal fees and expenses. All arbitration proceedings shall be conducted in the federal judicial district where Executive maintains his principal place of employment for the Company. Judgment upon any award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

20. EMPLOYER PROPERTY.

Upon termination of Executive's employment for any reason, or at any time at the Employer's request, Executive shall deliver up to the Employer, all property, keys, materials, documents, records, manuals, notebooks, or papers and any copies thereof maintained in any form that in any way relate to the business and activities of the Employer that may be in the possession, or under the control of Executive.

21. CONFLICTING AGREEMENTS.

Executive represents and warrants that he is free to enter into this Agreement and that Executive has not made and will not make any agreements in conflict with this Agreement.

22. SURVIVAL.

The covenants, agreements, representations, and warranties contained in or made pursuant to this Agreement shall survive Executive's termination of employment, whatever the reason for termination of such employment, and shall survive any termination of this Agreement, irrespective of any investigation made by or on behalf of any party.

WHEREUPON, the Parties hereto voluntarily enter into this Agreement as of this 15th day of February, 2004.

Big Lots, Inc.  
/s/ Albert J. Bell

-----  
By: Albert J. Bell  
Its: Chief Administrative Officer

Executive  
/s/ Donald A. Mierzwa

-----  
Printed Name: Donald A. Mierzwa

Big Lots Stores, Inc.  
/s/ Brad A. Waite

-----  
By: Brad A. Waite  
Its: Executive Vice President

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of the 1st day of February, 2004, by and among Big Lots, Inc., an Ohio corporation ("BLI"), Big Lots Stores, Inc., an Ohio corporation ("BLSI") (BLI, BLSI and their respective affiliates, predecessor, successor, subsidiaries and other related companies are hereinafter jointly referred to as "Employer"), and Brad A. Waite ("Executive").

## WITNESSETH:

WHEREAS, the Employer desires to engage Executive to perform services for the Employer and Executive desires to perform such services, on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the sufficiency of which is hereby mutually acknowledged, the Parties hereby agree as follows:

## 1. EMPLOYMENT.

- (a) DUTIES AND SERVICES. Employer hereby employs Executive as an Executive Vice President (or other appropriate title as designated by the Employer in its sole discretion) and Executive hereby accepts such employment, and shall perform services of a business, professional or commercial nature for the Employer in furtherance of the Employer's business. In performance of these duties, Executive shall be subject to the direction of and report to an individual holding one or more of the following titles: Chief Executive Officer, President, and/or Chief Administrative Officer of Employer.
- (b) ADDITIONAL POSITIONS. Executive shall, without any compensation in addition to that which is specifically provided in this Agreement, serve as an officer of the Employer and in such substitute or further offices or positions with Employer as shall from time to time be reasonably requested by the Employer. Each office and position with the Employer, in which Executive may serve or to which he may be appointed, shall be consistent in title and duties with Executive's position. For service as a director or officer of Employer, which service shall in each instance be deemed to be at the request of the Employer and its Board of Directors, Executive shall be entitled to the protection of the applicable indemnification provisions of the charter and code of regulations of Employer and Employer agrees to indemnify and hold harmless Executive from and against any claims, liabilities, damages or expenses incurred by Executive in or arising out of the status, capacities and activities as an officer or director of the Employer, to the maximum extent permitted by law and in accordance with any agreement for indemnification. On any termination of his employment, Executive shall be deemed to have resigned from all offices and directorships held by Executive.
- (c) FULL TIME AND ATTENTION. Executive agrees to his employment as described herein and agrees to devote all of his time and best efforts to the performance of his duties under this Agreement. Except as expressly permitted herein, Executive shall not, without the prior written consent of Employer, directly or indirectly during the term of this Agreement, render services of a business, professional or commercial nature to any other person or firm, whether for compensation or otherwise. So long as it does not interfere with his full-time employment hereunder, Executive may attend to outside investments and serve as a director, trustee or officer of or otherwise participate in educational, welfare, social, religious and civic organizations.

## 2. TERM.

Subject to the provisions for termination provided in this Agreement, the term of this Agreement shall commence on February 1, 2004 and shall continue thereafter until Executive's employment is terminated. This Agreement supersedes and replaces the July 29, 2002 Employment Agreement between Big Lots Stores, Inc. and its parent, affiliated, predecessor, successor, subsidiary and other related companies and

Executive.

3. COMPENSATION AND BENEFITS.

- (a) BASE SALARY. As compensation for his services hereunder, the Employer shall pay Executive, an annual base salary (the "Base Salary") payable in equal installments on regular payroll dates designated by the Employer, an annual rate of Four Hundred and Five Thousand Dollars (\$405,000). At least annually, the Compensation Committee of the BLI Board of Directors shall review Executive's performance and determine whether an increase in the Executive's Base Salary is merited. Provided, however, that in no event shall the Base Salary be adjusted to an amount lower than the annual rate initially enumerated in this Paragraph.
- (b) BENEFITS. Executive shall be entitled to participate in any group health care, hospitalization, life insurance, dental, disability or other benefit plans ("Benefit Plans") available to executives in the same or similar job classification (other than bonus compensation or performance plans to the extent that such plans, in the case of Executive, are in lieu of the bonus plan set forth in Paragraph 4 herein). Executive's participation in and benefits under any such Benefit Plans shall be in accordance with the terms and subject to the conditions specified in the governing document of the particular Benefit Plan(s).
- (c) VACATION AND SICK LEAVE. Executive shall be entitled to such periods of vacation and sick leave each year as provided under Employer's Vacation and Sick Leave Policy for executives of the same or similar job classification.
- (d) AUTOMOBILE ALLOWANCE. During the term of this Agreement, Employer shall provide Executive with an automobile or a monthly automobile allowance, in accordance with applicable policies of the Employer for executives of the same or similar job classification.

4. BONUS.

Executive shall be eligible to participate in the 1998 Big Lots, Inc. Key Associate Annual Compensation Plan, as amended (or any such successor plan, hereinafter "Bonus Program"). Executive shall be eligible to receive a bonus for the fiscal year beginning February 1, 2004, and for each subsequent fiscal year of employment completed during the term of this Agreement. Executive's bonus shall be an amount equal to the Base Salary at the end of such fiscal year multiplied by the Bonus Payout percentage as determined by the Bonus Program set each fiscal year by the Compensation Committee of BLI's Board of Directors. The Bonus Program is based upon the achievement of Employer's annual financial plan. The Target Bonus for Executive is 60% of Base Salary and the Stretch Bonus for Executive is 120% of Base Salary, both of which are defined by the Compensation Committee of BLI's Board of Directors and are subject to adjustment by BLI's Board of Directors; provided however, Executive's Target Bonus shall never fall below 60% of Base Salary and Executive's Stretch Bonus shall never fall below 120% of base salary. Payment of the Bonus described in this Paragraph is subject to the terms of the Bonus Program and any agreements issued thereunder.

5. EXPENSES.

Employer shall reimburse Executive during the term of this Agreement for travel, entertainment and other expenses reasonably incurred by Executive in the promotion of Employer's business. Executive shall furnish such documentation and/or receipts with respect to reimbursement to be paid as requested by the Employer.

6. TERMINATION.

The employment of Executive under this Agreement and term hereof shall be controlled by this Agreement, exclusively and without regard to any termination, severance, income continuation, or similar policies of Employer. Such employment may be terminated:

- (a) WITHOUT CAUSE, EMPLOYER TERMINATION. By Employer without cause at any time upon thirty (30) days notice to the Executive of such termination, or

(b) WITHOUT CAUSE, EXECUTIVE TERMINATION. By Executive without cause at any time upon thirty (30) days notice to



the Employer of such termination, or

- (c) UPON DEATH OR LONG-TERM DISABILITY OF EXECUTIVE. By Employer upon the death or long-term disability of Executive, or
- (d) FOR CAUSE, EMPLOYER TERMINATION. By Employer for cause at any time. For purposes hereof, the term "cause" shall mean:
  - (i) Executive's conviction of fraud, a felony or other crime involving moral turpitude or Executive's commission of acts of embezzlement or theft in connection with his duties or in the course of his employment.
  - (ii) Executive engaging in Competitive Activities, disclosing confidential information, or his willful breach of any material provision of this Agreement.
  - (iii) The term "Competitive Activities" shall mean Executive's participation, without the written consent of the Board of Directors of the Employer, in any business enterprise if such business enterprise engages in direct competition with the Employer. For purposes of this Agreement, a business enterprise shall be considered in direct competition with the Employer, if such business enterprise's sales, related to any activity then engaged in by the Employer, amount to ten percent (10%) or more of such business enterprise's total sales or one percent (1%) of Employer's annual sales. "Competitive Activities" shall not include the mere ownership of securities in any publicly-traded enterprise and the exercise of rights appurtenant thereto.
  - (iv) Any termination of Executive for "cause" shall not be effective until Employer delivers written notice to Employee pursuant to the terms of Paragraph 11 of this Agreement.
  - (v) Any termination by reasons of the foregoing Subparagraphs (i)-(iv) shall not be in limitation of any other right or remedy the Employer may have under this Agreement, at law, in equity or otherwise.

7. EFFECT OF TERMINATION.

- (a) WITHOUT CAUSE EFFECT, EMPLOYER TERMINATION. In the event of the termination of Executive's employment by Employer pursuant to Paragraph 6(a) above, except as otherwise provided in Paragraph 5 of this Agreement, Employer shall have no obligation to pay any compensation or benefits of any kind to Executive other than, (i) Base Salary that has been earned but not been paid up to and including the date of termination;
  - (ii) A prorata portion of the Bonus under this Agreement based upon the amount of time worked by the Executive in the fiscal year when such termination is effective, provided, however, that such prorata portion will be determined in the ordinary course of business and paid at such time following the close of the fiscal year that such other eligible executives receive such payment;
  - (iii) A continuation of Base Salary, automobile allowance (or use of present company automobile), any Benefit Plans for which Executive is eligible and enrolled, for twelve (12) months following the termination of this Agreement;
  - (iv) The Benefit Plans and automobile allowance/use contained in Subparagraph (iii), above, shall cease if during the twelve (12) months following termination, Executive is entitled to receive the same or similar benefits from another employer.
- (b) WITHOUT CAUSE EFFECT, EXECUTIVE TERMINATION. In the event of the termination of Executive's employment by Executive pursuant to Paragraph 6(b) above, Employer shall have no

obligation to pay any compensation or benefits of any kind to Executive other than Base Salary that has been earned but not been paid up to and including the date of termination, and Executive shall not be entitled to receive any Bonus under this Agreement or otherwise.

(c) DEATH OR LONG-TERM DISABILITY. In the event of the termination of Executive's employment by reason of death or long-term disability pursuant to Paragraph 6(c) above, Employer shall have no obligation to pay any compensation or benefits of any kind to Executive or the Executive's estate, other than as follows:

- (i) Base Salary that has been earned but not been paid up to and including the date of termination;
- (ii) A prorata portion of the Bonus under this Agreement based upon the amount of time worked by the Executive in the fiscal year when such termination is effective, provided, however, that such prorata portion will be determined in the ordinary course of business and paid at such time

following the close of the fiscal year that such other eligible executives receive such payment;

(iii) In the case of long-term disability, a continuation of Base Salary and any Benefit Plans for which Executive is eligible and enrolled for six (6) months following the termination of this Agreement and any long-term disability benefits for which Executive is eligible under the Employer's long-term disability group insurance plan.

(iv) The term "Long-Term Disability" shall be construed as it is defined in the Employer's long-term disability group insurance plan.

(d) FOR CAUSE EFFECT. In the event of termination for any of the reasons for cause set forth in Paragraph 6(d) above, except as otherwise provided in Paragraph 5 of this Agreement, Executive shall not be entitled to further compensation or other benefits under this Agreement (other than as provided by law), except as to Base Salary that has been earned but not been paid up to and including the date of termination. Further, Executive shall not be entitled to receive any Bonus determined under this Agreement or otherwise.

## 8. CHANGE IN CONTROL.

If there is a Change in Control (as defined herein) and Executive's employment is thereupon terminated or terminated within twenty four (24) months after the effective date thereof, Executive shall be entitled to the termination benefits as set forth in this Paragraph and its subparagraphs in lieu of other provisions of this Agreement. For purposes of this Paragraph, Executive's employment shall be deemed to have been terminated following a change in control only if Employer terminates such employment without cause (as defined in paragraph 6(a) above), or if a Constructive Termination occurs. "Constructive Termination" shall mean a resignation by Executive because of any material adverse change or material diminution in Executive's then current reporting relationships, job description, duties, responsibilities, compensation, perquisites, office or location of employment (as reasonably determined by Executive in his good faith discretion); provided, however, that Executive shall notify Employer in writing at least forty five (45) days in advance of any election by Executive to terminate his employment because of a Constructive Termination hereunder, specifying the nature of the alleged adverse change or diminution and Employer shall have a period of ten (10) business days after the receipt of such notice to cure such alleged adverse change or diminution before Executive shall be entitled to exercise any such rights and remedies. Executive shall not be entitled to the benefits available hereunder unless such notice is timely given.

(a) CHANGE IN CONTROL BENEFITS. The benefits payable to Executive are as follows:

(i) Employer shall pay to Executive a lump sum cash payment, net of any applicable withholding taxes, in an amount equal to two (2) times his Base Salary immediately prior to the effective date of such Change in Control (the "Lump Sum Payment"); provided, that if there are fewer than twenty four (24) months remaining from the date of Executive's termination to Executive's normal retirement date at age 65, Employer shall instead pay Executive a prorata amount of the Lump Sum Payment based upon the number of months remaining until Executive's normal retirement date at age 65. The applicable amount shall be paid on or before the next regular payroll date following the termination of the Executive's employment.

(ii) In addition to the payment described in Paragraph 8(a)(i) above, Employer shall pay to Executive a lump sum cash payment, net of any applicable withholding taxes, in an amount equal to two (2) times the Executive's then current Stretch Bonus, as defined in and determined annually by the Compensation Committee of BLI's Board of Directors; provided, that:

(A) In the event the Executive's Bonus is

undefined or is not subject to a maximum payout, the Executive's Bonus shall be deemed to be 200% of the Executive's then current Base Salary, and

- (B) If there are fewer than twenty four (24) months remaining from the date of Executive's termination to Executive's normal retirement date at age 65, Employer shall instead pay Executive a prorata amount of the Lump Sum Bonus Payment based upon the number of months remaining until Executive's normal retirement date at age 65. Executive shall receive the Lump Sum Bonus Payment at the same time Executive receives the Lump Sum Payment described above.

- (iii) A continuation of any Benefit Plans for which Executive (and his spouse and/or dependents, if their participation is permitted under the terms of the subject plan) is eligible and enrolled for twelve (12) months following the termination of this Agreement; provided, that Executive's participation in the plans referred to herein shall be terminated (other than as provided by law) when and to the extent that Executive is entitled to receive the same or similar benefits from another employer during such period. Executive's participation in and benefits under any such plan shall be on the terms and subject to the conditions specified in the governing document of the particular Benefit Plan(s).
- (iv) If all or any portion of the amount payable under paragraph 8(a)(i) and 8(a)(ii) of this Agreement, either alone or together with other amounts that Executive is entitled to receive in connection with a Change in Control, constitutes "excess parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, that are subject to the excise tax imposed by Section 4999 of the Code (or any similar tax or assessment), the amounts payable hereunder shall be increased to the extent necessary to place Executive in the same after-tax position as Executive would have been had no such excise tax or assessment been imposed on any such payment paid or payable to Executive under Paragraph 8(a)(i) and 8(a)(ii) of this Agreement or any other payment that Executive may receive as a result of such Change in Control. The determination of the amount of any such tax or assessment and the resulting amount of incremental payment required hereby in connection therewith shall be made by the independent accounting firm employed by Employer immediately prior to the applicable Change in Control, within thirty (30) calendar days after the payment of the amount payable pursuant to Paragraph 8(a)(i) and 8(a)(ii) of this Agreement. Said incremental payment shall be made within five (5) business days after said determination has been made.
- (v) If, after the date upon which any payment is to be made under this Paragraph, it is determined (pursuant to final judgment of a court of competent jurisdiction or an agreed upon tax assessment) that the amount of excise or other similar taxes or assessments payable by Executive is greater than the amount initially so determined, then Employer shall pay Executive an amount equal to the sum of (i) such additional excise or other similar taxes, plus (ii) any interest, fines and penalties resulting from such underpayment, plus (iii) an amount necessary to reimburse Executive for any income, excise or other tax or assessment payable by Executive with respect to the amounts specified in (i) and (ii) above, and the reimbursement provided by this clause (iii). Payment thereof shall be made within five (5) business days after the date upon which such subsequent determination is made.
- (vi) In addition to the benefits described above, Executive shall be entitled to all rights derived under the Big Lots, Inc. 1996 Performance Incentive Plan, as Amended (f/k/a Consolidated Stores Corporation 1996 Performance Incentive Plan, as Amended) in the event of a "Change in Effective Control" (as defined in that plan).

(b) CHANGE IN CONTROL DEFINED. As used herein, "Change in Control" means any of the following events:

- (i) Any person or group (as defined for purposes of Section 13(d) of the Securities Exchange Act of 1934) becomes the beneficial owner of, or has the right to acquire (by contract, option, warrant, conversion of

convertible securities or otherwise), 20% or more of the outstanding equity securities of BLI entitled to vote for the election of directors;

- (ii) A majority of the Board of Directors of BLI is replaced within any period of two (2) years or less by directors not nominated and approved by a majority of the directors of BLI in office at the beginning of such period (or their successors so nominated and approved), or a majority of the Board of Directors of BLI at any date consists of persons not so nominated and approved;
- (iii) The stockholders of BLI approve an agreement to reorganize, merge or consolidate with another corporation (other than BLSI or an affiliate); or
- (iv) The stockholders of BLI adopt a plan or approve an agreement to sell or otherwise dispose of all or substantially all of BLI's assets (including without limitation, a plan of liquidation or dissolution), in a single transaction or series of related transactions.

- (c) **EFFECTIVE DATE/TERMS.** The effective date of any such Change in Control shall be the date upon which the last event occurs or last action taken such that the definition of such Change in Control (as set forth above) has been met. For purposes of this Agreement, the term "affiliate" shall mean:
- (i) Any person or entity qualified as part of an affiliated group which includes BLSI and BLI pursuant to Section 1504 of the Code; or
  - (ii) Any person or entity qualified as part of a parent-subsidiary group of trades and businesses under common control within the meaning of Treasury Regulation Section 1.414(c-2)(b). Determination of affiliate shall be tested as of the date immediately prior to any event constituting a Change in Control. The other provisions of this Paragraph notwithstanding, the term "Change in Control" shall not mean any transaction, merger, consolidation, or reorganization in which BLI exchanges or offers to exchange newly issued or treasury shares in an amount less than 50% of the then outstanding equity securities of BLI entitled to vote for the election of directors, for 51% or more of the outstanding equity securities entitled to vote for the election of at least the majority of the directors of a corporation other than BLI or an affiliate thereof (the "Acquired Corporation"), or for all or substantially all of the assets of the Acquired Corporation.
- (d) **LEGAL COUNSEL.** If Executive hires legal counsel with respect to any alleged failure of Employer to comply with any terms of Paragraph 8 of this Agreement, or institutes any negotiation or institutes or responds to any legal action to assert or defend the validity of or to enforce Executive's rights under Paragraph 8 of this Agreement, or to recover damages for breach of Paragraph 8 of this Agreement, Employer shall pay Executive's actual expenses for attorneys' fees and disbursements, together with such additional payments, if any, as may be necessary so that the net after-tax payments so made to Executive equal such fees and disbursements; provided, however, that Executive shall be responsible for his own fees and expenses with respect to any lawsuit between Executive and Employer to enforce rights or obligations under this Paragraph 8 in which Employer is the prevailing party. The fees and expenses incurred by Executive in instituting or responding to any such negotiation or legal action shall be paid by Employer as they are incurred, in advance of the final disposition of the action or proceeding, upon receipt of an undertaking by Executive to repay such amounts if Employer is ultimately determined to be the prevailing party.
- (e) **INTEREST.** If any amount due Executive by the terms of this Paragraph 8 is not paid when due, then Employer shall pay interest on said amount at an annual rate equal to the base lending rate of National City Bank, Cleveland, Ohio, or successor, as in effect from time to time, for the period between the date on which such payment is due and the date said amount is paid.
- (f) **NO RIGHT OF SETOFF.** Employer's obligation to pay Executive the compensation and to make the arrangement required in this Paragraph 8 shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, any setoff, counterclaim, recoupment, defense or other right that Employer may have against Executive or otherwise. All amounts payable by Employer hereunder shall be paid without notice or demand. Subject to the proviso in this Paragraph 8, each and every payment made hereunder by Employer shall be final and Employer shall not seek to recover all or any part of such payment from Executive or from whosoever may be entitled thereto, for any reason whatsoever. Executive shall not be obligated to seek other employment or compensation or insurance in mitigation of any amount payable or arrangement made under this Paragraph 8, and the obtaining of any such other employment or compensation or insurance, except as otherwise provided in this Agreement, shall in no

event effect any reduction of Employer's obligations to make the payments and arrangements required under this Paragraph 8.

9. COVENANTS OF EXECUTIVE.

- (a) COVENANTS. Executive acknowledges that the principal businesses of Employer include the operation of its "Big Lots" discount general merchandise consumer goods retail outlets, the inventories of which are acquired primarily through special purchase situations such as overstocks, closeouts, liquidations, bankruptcies, wholesale distribution of overstock, distress, liquidation and other volume inventories, the operation of its Big Lots Furniture Stores, and its wholesale operations (the "Company Business"); and



Employer is one of the limited number of entities who have developed such business; and the Company Business is national in scope; and Executive's work for Employer will give him access to the confidential affairs of Employer; and the agreements and covenants of Executive contained in Subparagraphs (i)-(iii) herein ("Restrictive Covenants") are essential to the business and goodwill of Employer. Accordingly, Executive covenants and agrees that:

- (i) During the term of Executive's employment with Employer and for a period of one (1) year (the "Restricted Period") following the termination of his employment in any manner, Executive shall not in any location where Employer's retail stores are located throughout the United States, directly or indirectly, (1) engage in the Company Business for Executive's own account (other than pursuant to this Agreement), (2) render any services to any person engaged in such activities (other than Employer), or (3) render any services to, or in any manner become employed, by Wal-Mart, Kmart, Target, Dollar General, Family Dollar, Dollar Tree, Retail Ventures, Inc., Fred's, 99(cen) Stores, Canned Foods, Tuesday Morning, TJX Corporation, or any grocery store chain, regardless of size. Further, Employee agrees not to render any services to, or in any manner become employed by, any parent, subsidiary or other related entity of the above listed entities. However, in the event of a Change in Control as defined in this Agreement, the Restricted Period shall be for a period of six (6) months.
- (ii) During the term of Executive's employment with Employer and for a period of two (2) years following the termination of his employment in any manner, Executive shall keep secret and retain in strictest confidence, and shall not use for his benefit or the benefit of others, all confidential matters relating to the Company Business hereafter learned by Executive, and shall not disclose them to anyone except with Employer's express written consent and except for information which is at the time of receipt or thereafter, becomes publicly known through no wrongful act of Executive, or is received from a third party not under an obligation to keep such information confidential and without breach of this Agreement.
- (iii) During the term of Executive's employment with Employer and for a period of two (2) years following the termination of his employment in any manner, without Employer's prior written consent, Executive will not directly or indirectly, solicit, encourage to leave the employment of Employer or hire any employee of Employer.

- (b) **ACKNOWLEDGMENT.** Executive acknowledges that the foregoing restrictions are reasonable in light of the nature of the services the Employer provides. Executive and the Employer agree that the Employer has legitimate reasons for requiring such Restrictive Covenants from Executive. Executive acknowledges that he understands the restrictions and has had an opportunity to fully discuss these restrictions with the Employer and accepts the restrictions.
- (c) **MAXIMUM ENFORCEABLE RESTRICTION.** In the event that any or all of the Restrictive Covenants contained in this Paragraph shall be determined by a court of competent jurisdiction to be unenforceable by reason of the temporal restrictions being too great, or by reason that the range of activities covered are too great, or for any other reason, they shall be interpreted to extend over the maximum period of time, range of activities or other restrictions as to which they may be enforceable.
- (d) **INJUNCTIVE RELIEF.** The Parties agree that a breach of the Restrictive Covenants contained in this Paragraph may cause irreparable damage to the Employer, the extent of which may be difficult to ascertain, and that the award of damages may not

be adequate relief. Therefore, Executive agrees that, in the event of a breach or a threatened breach of the Restrictive Covenants, the Employer may institute an action to compel the specific performance of same and obtain injunctive relief, without bond; Executive agrees not to assert adequacy of money damages as a defense and agrees that such remedy shall be cumulative, not exclusive, and in addition to any other available remedies, and that the Employer may require Executive to account for and pay over to Employer all compensation, profits, monies, accruals, increments, or other benefits derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants. Employer may set off any amounts finally determined by a court of competent jurisdiction to be due it under this Paragraph against any amounts owed to Executive. The Parties agree that any action for breach of the Restrictive Covenants and/or injunctive relief shall be venued in the Court of Common Pleas, Franklin County, Ohio, and that Ohio law governs the terms of this Agreement.

- (e) TOLLING PERIOD. Executive acknowledges that under the terms of the Restrictive Covenants contained in this Paragraph, the Employer is entitled to receive a period of one (1) year of non-competition, and two (2) years of non-solicitation and confidentiality immediately following termination of Executive's employment. Executive agrees that if any of these obligations to the Employer are breached during the one (1) year period or non-competition, and/or the two (2) year period of non-solicitation and confidentiality, then the time period will be extended for the length of time that Executive failed to fulfill his obligations.

10. WITHHOLDING TAXES.

Except as otherwise provided, all payments to Executive, including the bonus compensation under this Agreement, shall be subject to withholding on account of federal, state, and local taxes as required by law.

11. NOTICES.

Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission or sent by certified or priority mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, or sent by facsimile transmission or, if mailed, five (5) days after the date of deposit in the United States mail as follows:

- (a) If to the Employer to: Big Lots Stores, Inc.  
300 Phillipi Road  
Columbus, Ohio 43228-1310  
Attention: General Counsel
- With a copy to: Big Lots Stores, Inc.  
300 Phillipi Road  
Columbus, Ohio 43228-1310  
Attention: Chief Executive Officer
- (b) If to the Executive to: Brad A. Waite  
2879 Wickliffe Woods Court  
Columbus, Ohio 43221
- (c) CHANGE OF ADDRESS. Any such person may by notice given in accordance with this Paragraph to the other parties hereto, designate another address or person for receipt by such person of notices hereunder.

12. SEVERABLE PROVISIONS.

The provisions of this Agreement are severable, and if any one or more provisions may be determined to be invalid or otherwise unenforceable, in whole or in part, the remaining provisions and any partially unenforceable provision, to the maximum extent enforceable, shall, nevertheless, be binding and enforceable.

13. MODIFICATION.

This Agreement collectively sets forth the entire understanding of the Parties with respect to the subject matter hereof, supersedes all existing agreements between them concerning such subject matter, and may be modified only by a written instrument duly executed by each party.

14. WAIVER.

Any waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Agreement. The failure

of a party to insist upon strict adherence to any term of this Agreement on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. Any waiver must be in writing.

15. BINDING EFFECT.

Executive's rights and obligations under this Agreement shall not be transferable by assignment or otherwise, such rights shall not be subject to commutation, encumbrance, or the claims of Executive's creditors, and any attempt to do any of the foregoing shall be void. The provisions of this Agreement shall be binding upon and inure to the benefit of Executive and his heirs and personal representatives, and shall be binding upon and inure to the benefit of the Employer and its successors.

16. NO THIRD-PARTY BENEFICIARIES.

This Agreement does not create, and shall not be construed as creating, any rights enforceable by any person not a party to this Agreement.

17. HEADINGS.

The headings in this Agreement are solely for the convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

18. COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

19. GOVERNING LAW, JURISDICTION AND ARBITRATION.

This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio, without giving effect to conflict of laws. Any dispute arising out of or relating to this Agreement or any breach of this Agreement, with the exceptions of the Restrictive Covenants contained in Paragraph 9, shall be submitted to and determined in binding arbitration, and such method shall be the exclusive method for resolving such disputes. This provision includes any and all claims and remedies that the Executive could bring against the Employer arising out of his employment, including, but not limited to, claims for negligence, wrongful discharge, discrimination, harassment, intentional tort, infliction of emotional distress, defamation, or loss of consortium. Submission may be made by either party and must be made within thirty (30) days subsequent to the dispute arising. Thereafter, the parties hereto shall take such steps as are necessary to assure that the dispute will be promptly settled by arbitration, in accordance with the then-current Commercial Arbitration Rules of the American Arbitration Association, within ninety (90) days of its submission. The arbitration shall be conducted by a single arbitrator selected by the parties. If the parties have not selected an arbitrator within ten (10) days of written demand for arbitration, the arbitrator shall be selected by the American Arbitration Association. Each party shall bear all its own legal fees and expenses. All arbitration proceedings shall be conducted in the federal judicial district where Executive maintains his principal place of employment for the Company. Judgment upon any award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

20. EMPLOYER PROPERTY.

Upon termination of Executive's employment for any reason, or at any time at the Employer's request, Executive shall deliver up to the Employer, all property, keys, materials, documents, records, manuals, notebooks, or papers and any copies thereof maintained in any form that in any way relate to the business and activities of the Employer that may be in the possession, or under the control of Executive.

21. CONFLICTING AGREEMENTS.

Executive represents and warrants that he is free to enter into this Agreement and that Executive has not made and will not make any agreements in conflict with this Agreement.

22. SURVIVAL.

The covenants, agreements, representations, and warranties contained in or made pursuant to this Agreement shall survive Executive's termination of employment, whatever the reason for termination of such employment, and shall survive any termination of this Agreement, irrespective of any investigation made by or on behalf of any party.

WHEREUPON, the Parties hereto voluntarily enter into this Agreement as of this 29th day of March, 2004.

Big Lots, Inc.  
/s/ Michael J. Potter  
-----  
By: Michael J. Potter  
Its: Chief Executive Officer

Executive  
/s/ Brad A. Waite  
-----  
Printed Name: Brad A. Waite

Big Lots Stores, Inc.  
/s/ Albert J. Bell  
-----  
By: Albert J. Bell  
Its: Chief Administrative Officer

BIG LOTS STORES, INC.

SUPPLEMENTAL DEFINED BENEFIT PENSION PLAN

BIG LOTS, INC.

SUPPLEMENTAL DEFINED BENEFIT PENSION PLAN

PREAMBLE

Effective January 1, 1996, Consolidated Stores Corporation adopted the Consolidated Stores Corporation Supplemental Defined Benefit Pension Plan, for a select group of highly compensated employees to ensure that the overall retirement pension benefit said group of highly compensated employees would receive would be equal to what the benefit would have been had the Consolidated Stores Corporation Defined Benefit Pension Plan not been amended to freeze said employees' accrued retirement pension benefits.

Effective January 1, 2001, the name of the Company changed to Big Lots Stores, Inc. and effective as of such date the name of this Plan changed to the Big Lots Stores Supplemental Defined Benefit Pension Plan.

Effective as of January 1, 2003, the Plan is again amended and restarted in its entirety to incorporate certain administrative changes, including the Plan name change.

This Plan is an unfunded, supplemental executive deferred compensation plan structured to benefit such employees described above in a manner that provides said employees full pension benefits and that provides the incentive for said employees to improve the profitability, competitiveness and growth of Big Lots, Inc. and its affiliates.

## ARTICLE I

### DEFINITIONS

- 1.1 "Basic Retirement Plan" means the Big Lots Stores Defined Benefit Pension Plan, as amended and restated effective as of January 1, 1997, with further amendments through January 1, 2002.
- 1.2 "Basic Retirement Benefit" means the annual benefit to which a Participant is entitled from the Basic Retirement Plan, in the form of a single life annuity commencing on his Retirement Date and ending on the first day of the month during which his death occurs. The Basic Retirement Plan Benefit assumes immediate commencement of benefits with applicable early payment reductions as may be applied under the Basic Retirement Plan.
- 1.3 "Beneficiary" means the person, persons or entity designated by the Participant to receive any benefits payable under the Plan.
- 1.4 "Change in Control" shall have the same meaning as prescribed in Section 5.2.
- 1.5 "Committee" means the three individuals serving as the Chief Executive Officer, the Chief Financial Officer and the Executive Vice President, Human Resources of the Company. The Committee is authorized to establish Plan policy and review Plan discretionary decisions pursuant to the terms of this Plan.
- 1.6 "Company" means, as of May 16, 2001, Big Lots Stores, Inc., an Ohio corporation. Previous to May 16, 2001, Company means Consolidated Stores Corporation, a Delaware corporation.
- 1.7 "Compensation" means remuneration in the form described in Section 1.10(a) of the Basic Retirement Plan.
- 1.8 "Credited Service" means service as defined in Section 1.31(b) of the Basic Retirement Plan.
- 1.9 "Effective Date" means January 1, 2002, the effective date of this amended and restated Plan.
- 1.10 "Employer" means the Company and/or an applicable participating Related Company or any successor to the business thereof.
- 1.11 "Final Average Compensation" means the average monthly Compensation of a Participant as defined in Section 1.10(b) of the Basic Retirement Plan.
- 1.12 "Participant" means any individual who is eligible to participate in this Plan pursuant to Article II of this Plan.



- 1.13 "Plan" means the Consolidated Stores Supplemental 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 Supplemental Defined Benefit Pension Plan.
- 1.14 "Plan Administrator" means the Company, notwithstanding the fact that certain administrative functions under or with respect to this Plan have been delegated to the Committee pursuant to the provisions of Article VII of this Plan.
- 1.15 "Related Company" means:
- (a) any corporation included within a "controlled group of corporation" of which the Company is a member, as determined under Code Section 414(b) and (m) and Regulations issued pursuant thereto (except that, with respect to the benefit limitation under Section 1 of Schedule II of the Basic Retirement Plan, 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.
- 1.16 "Retirement Date" means that date a Participant is otherwise eligible to retire under the terms of the Basic Retirement Plan
- 1.17 "Supplemental Retirement Benefit" or "Supplement Benefit" means the annual benefit payable in accordance with the terms of this Plan.

## ARTICLE II

### PARTICIPATION

- 2.1 An Employee of the Employer who is a participant in the Basic Retirement Plan shall be eligible to participate in this Plan provided the following conditions have been met:
- (a) the Employee was an active participant in the Basic Retirement Plan on December 31, 1996; and
  - (b) the Employee was a 'highly compensated employee' on December 31, 1996, as that term is defined in Code Section 414(q) as of December 31, 1996.
- 2.2 An existing Employee of the Employer who was not a 'highly compensated employee' on December 31, 1995, who subsequently becomes a 'highly compensated employee' (as that term is defined in Code Section 414(q) for the Plan Year in which the determination is made) shall become a Participant in this Plan.
- 2.3 Notwithstanding any other provision of this Plan to the contrary, any other Employee of the Employer who is hired after March 31, 1994 or who is rehired after his prior service has been forfeited under Section 3.4(c) of the Basic Retirement Plan, and who, as a result, is not eligible to become a participant in the Basic Retirement Plan shall be not eligible to participate in this Plan.

### ARTICLE III

#### ELIGIBILITY FOR AND AMOUNT OF BENEFITS

- 3.1 Each Participant who is eligible to retire under the terms of the Basic Retirement Plan and who has met the eligibility requirements of this Plan pursuant to Article II shall be entitled to receive a monthly Supplemental Pension, in the normal form of payment, as described in Section 7.1 of the Basic Retirement Plan, in an amount equal to:
- (a) one percent (1%) of a Participant's Final Average Compensation multiplied by the Participant's Credited Service (not to exceed 25 years) minus
  - (b) the greater of (1) or (2) below where:
    - (1) is the accrued retirement pension of the Participant as determined under the Basic Retirement Plan in effect as of December 31, 1995, assuming the Participant terminated employment with the Company on March 31, 1996 or such later date that the Participant was determined to be a Highly Compensated Employee under the terms of the Basic Retirement Plan.
    - (2) is the accrued retirement pension of the Participant as determined under Section 5.1 of the Basic Retirement Plan as in effect on December 31, 1995, without regard to Section 5.1(c) of the Basic Retirement Plan.
- 3.2 An Employee who becomes a Participant in this Plan shall remain a Participant until his termination of employment with the Company. To the extent a Participant is not entitled to a vested accrued retirement pension under the terms of the Basic Retirement Plan upon termination of employment with the Company other than by reason of death, disability, or retirement (as those terms are described and used in the Basic Retirement Plan), neither the Participant nor any Beneficiary nor any other person shall have a right to any benefit from this Plan with respect to such Participant.

## ARTICLE IV

### FORM AND COMMENCEMENT OF BENEFITS

- 4.1 Supplemental Plan Benefits payable to a Participant or Beneficiary pursuant to Article III shall be payable in the same form and manner as is applicable to the Basic Retirement Plan Benefit payable to the Participant or Beneficiary under the Basic Retirement Plan. If a Basic Retirement Plan Benefit is payable as described in Section 7.1 of the Basic Retirement Plan, then his Supplemental Plan Benefit shall be subject to adjustment by the same reduction factors as are applicable under the Basic Retirement Plan with respect to the Basic Retirement Plan Benefit of the Participant.
- 4.2 A Supplemental Plan Benefit payable to a Participant or Beneficiary pursuant to this Plan shall commence on the same date as benefits commence to the Participant or Beneficiary pursuant to the terms of the Basic Retirement Plan.
- 4.3 The death benefit payable to the Beneficiary(ies) of a deceased eligible Participant shall be either (a) or (b) below, minus (c) below:
- (a) a lump sum amount equal to the actuarial equivalent (as that term is defined in Section 1.1 of the Basic Retirement Plan as of the date of the Participant's death) of the Participant's accrued Supplemental Plan Benefit, reduced for early payment as described in Section 5.2 of the Basic Retirement Plan, and computed on the assumption that the Participant had separated from employment with the Company on his date of death, survived to the earliest retirement age under the Plan and died on the day after that earliest retirement age; or
  - (b) a monthly life annuity that is the survivorship portion of the qualified joint and survivor annuity as defined in Section 7.2 of the Basic Retirement Plan, assuming that the Participant had separated from employment with the Company on his date of death, survived to the earliest retirement age under the Plan and died on the day after that earliest retirement age;
  - (c) the death benefit determined and payable pursuant to Section 6.1 of the Basic Retirement Plan.
- 4.4 The designation of Beneficiary(ies) and the manner of payment shall be as described in Article VI of the Basic Retirement Plan.

## ARTICLE V

### AMENDMENT AND TERMINATION

- 5.1 The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan when, in its sole discretion, such amendment or termination is advisable. Any such amendment or termination shall be made pursuant to a resolution of the board of directors of the Company and shall be effective as of the date of such resolution. No amendment or termination of the Plan shall directly or indirectly deprive any Participant or Beneficiary of any portion of any Supplemental Plan Benefit payment that has commenced prior to the effective date of the resolution amending or terminating the Plan.
- 5.2 In the event of Change in Control of the Company, the Committee may effect immediate lump sum payment of the accrued Supplemental Plan Benefit to applicable Participants. For purposes of this Section 5.2, "Change in Control" means:
- (a) any person or group (as defined in Section 13(d) of the Securities Exchange Act of 1934) other than the Company or its affiliates becomes the beneficial owner of, or has the right to acquire (by contract, warrant, option, conversion of convertible securities or otherwise), twenty percent (20%) or more of the outstanding equity securities of Big Lots Stores, Inc, an Ohio corporation, entitled to vote for the election of directors;
  - (b) a majority of the board of directors of the Company is replaced within any period of two years or less by directors not approved by a majority of the directors of the Company in office at the beginning of such period (or their successors so approved), or a majority of the board of directors of the Company at any date consists of persons not so approved; or
  - (c) the stockholders of the Company approve an agreement to merge or consolidate the Company with another corporation other than the Company or an affiliate thereof or an agreement to sell or otherwise dispose of all or substantially all of the Company's assets to an entity other than the Company or an affiliate thereof.

## ARTICLE VI

### COMMITTEE

- 6.1 The Committee of this Plan, which shall be the same committee that administers the Big Lots Stores, Inc. Defined Benefit Pension Plan, shall administer this Plan in accordance with the intention of the board of directors of the Company as expressed herein.
- 6.2 No Committee member at any time hereunder who is a Participant shall have any vote in any decision of the Committee made primarily with respect to such Committee member or such member's benefits hereunder. All actions of the Committee may be taken with or without a meeting and shall be in writing and signed by a majority of the members of the Committee.

## ARTICLE VII

### ADMINISTRATION

- 7.1 The Committee as described in Article VI which is the same committee that oversees the administrative functions under the Big Lots Stores, Inc. Defined Benefit Pension Plan shall have the primary administrative responsibility with respect to this Plan. All policy and discretionary decisions as well as administrative decisions shall be the responsibility of the Committee and they shall be made in conjunction with and not inconsistent with the policy and administrative decisions made by the Committee as they relate to the Big Lots Stores, Inc. Defined Benefit Pension Plan. The Committee shall interpret the provisions of the Plan where necessary and follow procedures for the administration of the Plan that are consistent with the provisions of the Basic Retirement Plan.
- 7.2 Expenses incurred by the Committee and the Plan Administrator in the administration of the Plan, including the fees and compensation of suitors, actuaries, accountants, legal counsel and other counsel retained by the Committee to carry out the intent and purpose of this Plan, shall be paid by the Company and/or applicable Employer.
- 7.3 The Committee shall keep such records as are reasonably needed to effectuate the purposes of the Plan. Any forms needed to carry out the provisions of this Plan shall be established and maintained by the Plan Administrator.
- 7.4 All determinations made by the Committee regarding the purpose and intent of this Plan as well as the benefits payable under this Plan, eligibility to participate, etc., shall be made in the sole and absolute discretion of the Committee. Such decisions shall be binding on all Participants, Beneficiaries, successors, assigns, executors, administrators, heirs, next-of-kin, and distributees of all the foregoing.
- 7.5 Except as provided by law, no benefit, payment or distribution under this Plan shall be subject either to the claim of any creditor of a Participant or Beneficiary, or to attachment, garnishment, levy, execution or other legal or equitable process, by any creditor of such Participant. No such Participant shall have any right to alienate, commute, anticipate or assign all or any portion of any benefit, payment or distribution under this Plan.

## ARTICLE VIII

### PARTICIPATING RELATED COMPANIES

- 8.1 Any Employer that is a Related Company and that is authorized by the board of directors of the Company to participate in this Plan may elect to participate by action of its own board of directors and by entering into an agreement, a copy of which shall be attached hereto and made a part of this Plan.
- 8.2 the Company may, at any time and in its discretion, determine to exclude any Employer from this Plan. Any Employer may similarly elect to withdraw its participation at any time after the expiration of the sixty (60) day period immediately following receipt by the Plan Administrator of the Employer's written intention to withdraw.
- 8.3 A sale or liquidation of an Employer by the Company such that the Company no longer owns 50% of such Employer, or the Employer is liquidated, the Company shall assume payment of such Employer's remaining obligations and liabilities under this Plan.



## ARTICLE IX

### MISCELLANEOUS PROVISIONS

- 9.1 Nothing contained herein shall require the Company or any Employer to continue any Participant in its employ, or require any Participant to continue in the employ of the Company or any Employer, nor does the Plan create any rights or any Participant or Beneficiary or any obligations on the part of the Company or any Employer other than those set forth herein. The benefits payable under this Plan shall be independent of, and in addition to, any other employment agreements that may exist from time to time concerning any other compensation of benefits payable by the Company.
- 9.2 The sole interest of each Participant and each Beneficiary under this Plan shall be to receive the deferred compensation benefits provided herein as and when the same shall become due and payable in accordance with the terms hereof; and, neither any Participant nor any Beneficiary shall have any right, title or interest (legal or equitable) in or to any of the specific property or assets of the Company or any participating Employer. All benefits hereunder shall be paid solely from the general assets of the Company or applicable Employers and no Employer shall maintain any separate fund or other separated assets to provide any benefits hereunder. In no manner shall any property of any Participant or Beneficiary be used as collateral security for the performance of the obligations imposed by this Plan on the Company or any Employer. The rights of a Participant or Beneficiary hereunder shall be solely those of an unfunded and unsecured creditor in respect to the promise of the Company or Employer to make contributions to the Plan or to pay benefits to the Participant or Beneficiary in the future.
- 9.3 Notwithstanding any provisions of the Plan to the contrary, the Company or any Employer may in its sole and absolute discretion determine and offset any amount to be paid to a Participant under the Plan against any amount that such Participant may owe to such Employer.
- 9.4 All benefit payments made under this Plan to any Participant or Beneficiary shall be subject to applicable withholding and to such other deductions as shall at the time of such payment be required under applicable federal, state, or local law. Determinations by the Plan Administrator as to withholding shall be binding on the Participant and Beneficiary(ies).

ARTICLE X

GENERAL PROVISIONS

- 10.1 This Plan shall constitute a plan that is unfounded and that is maintained primarily for the purpose of providing deferred compensation in the form of retirement benefit for a select group of highly compensated employees, as determined by the board of directors of the Company in its sole and absolute discretion.
- 10.2 The laws of the State of Ohio shall be the controlling state law in all matters relating to the Plan and shall apply to the extent that the Plan is not preempted by any law of the United States of America.
- 10.3 If any provision of this Plan is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and this Plan shall be construed and enforced as if such provision had not been included.

IN WITNESS WHEREOF, the Company has caused the Plan to be signed, adopted and dated this 26th day of March, 2004.

BIG LOTS STORES, INC.

By: /s/ Albert J. Bell

-----  
Title: Vice Chairman & Chief Administrative Officer

(Corporate Seal)

/s/ Charles W. Haubiel II

-----  
Attest:

Vice President, General Counsel & Corporate Secretary  
Title:

SUBSIDIARIES

NAME	JURISDICTION
----	-----
1. Durant DC, LLC	DE
2. Capital Retail Systems, Inc.	OH
3. Big Lots Stores, Inc.	OH
4. Mac Frugal's Bargains Close-outs Inc.	DE
5. PNS Stores, Inc.	CA
6. West Coast Liquidators, Inc.	CA
7. CSC Distribution, Inc.	AL
8. Closeout Distribution, Inc.	PA
9. Consolidated Property Holdings, Inc.	NV
10. C.S. Ross Company	OH
11. Great Basin LLC	DE
12. Industrial Products of New England, Inc.	ME
13. Midwestern Home Products, Inc.	DE
14. Midwestern Home Products Company, Ltd.	OH
15. Tool and Supply Company of New England, Inc.	DE
16. SS Investments Corporation	DE
17. Sonoran LLC	DE
18. Sahara LLC	DE
19. BLSI Property, LLC	DE
20. Barn Acquisition Corporation	DE
21. Fashion Barn, Inc.	NY
22. Fashion Barn of New Jersey, Inc.	NJ
23. Fashion Barn of Florida, Inc.	FL
24. Fashion Barn of Indiana, Inc.	IN
25. Fashion Barn of Pennsylvania, Inc.	PA
26. Fashion Barn of Oklahoma, Inc.	OK
27. Fashion Barn of Texas, Inc.	TX
28. Fashion Barn of Ohio, Inc.	OH
29. Fashion Outlets Corp	NY
30. Fashion Barn of Vermont, Inc.	VT
31. Fashion Barn of Virginia, Inc.	VA
32. Fashion Barn of South Carolina, Inc.	SC
33. Fashion Barn of North Carolina, Inc.	NC
34. Fashion Barn of West Virginia, Inc.	WV
35. Fashion Bonanza, Inc.	NY
36. Rogers Fashion Industries, Inc.	NY and NJ
37. Saddle Brook Distributors, Inc.	NY and NJ
38. DTS, Inc.	NY and TN
39. Fashion Barn of Missouri, Inc.	MO
40. Fashion Barn, Inc.	MA
41. Fashion Barn of Georgia, Inc.	GA

## INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in (i) Post-Effective Amendment No.1 to Registration Statement No. 33-42502 on Form S-8 pertaining to Big Lots, Inc. Director Stock Option Plan (ii) Post-Effective Amendment No.1 to Registration Statement No. 33-42692 on Form S-8 pertaining to Big Lots, Inc. Supplemental Savings Plan (iii) 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 (iv) Post-Effective Amendment No. 2 to Registration Statement No. 33-19309 on Form S-8 pertaining to Big Lots, Inc. Savings Plan (v) 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 (vi) Registration Statement No. 333-41143 on Form S-4 pertaining to the issuance of Big Lots, Inc. Common Shares; of our report dated March 19, 2004, appearing in this Annual Report on Form 10-K of Big Lots, Inc. for the year ended January 31, 2004.

Deloitte & Touche LLP  
Dayton, Ohio  
March 26, 2004

## SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, Albert J. Bell, presently residing at 7007 Temperance Point Street, Westerville, Ohio 43082-8707, 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/ Albert J. Bell

-----  
ALBERT J. BELL

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 23rd day of March, 2004, the above-signed individual known to me to be Albert J. Bell, 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  
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## SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, Philip E. Mallott having his address at 8606 Button Bush Lane, Westerville, OH 43082, does hereby appoint Albert J. Bell and Charles W. Haubiel II, 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 by 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 19th day of May, 2003, 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. Hannum

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NOTARY PUBLIC  
[SEAL]

My Commission expires:

12-22-2003  
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## SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, Ned Mansour having his address at 1547 Via Coronel, Palos Verdes Estates, CA 90274, does hereby appoint Albert J. Bell and Charles W. Haubiel II, 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 by 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 19th day of May, 2003, 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. Hannum  
-----  
NOTARY PUBLIC  
[SEAL]

My Commission expires:

12-22-2003  
-----

## SPECIAL POWER OF ATTORNEY

THE UNDERSIGNED, Russell Solt having his address at 202 Third Street, Gearhart, OR 97138, does hereby appoint Albert J. Bell and Charles W. Haubiel II, 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 by 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

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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 19th day of May, 2003, 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. Hannum

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NOTARY PUBLIC  
[SEAL]

My Commission expires:

12-22-2003  
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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)) 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) 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
  - c) 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: March 30, 2004

By: /s/ Michael J. Potter

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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)) 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) 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
  - c) 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: March 30, 2004

By: /s/ Joe R. Cooper

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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 31, 2004 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: March 30, 2004

/s/ Michael J. Potter

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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 31, 2004 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: March 30, 2004

/s/ Joe R. Cooper

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Joe R. Cooper  
Senior Vice President and  
Chief Financial Officer