UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 1, 2003

or

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

For the Transition Period From _____ to _____

Commission File Number 1-8897

BIG LOTS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No o

The number of Common Shares, $.01 par value, outstanding as of December 5, 2003 was 116,917,355 and there were no Preferred Shares, $.01 par value, outstanding at that date.

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FORM 10-Q

FOR THE QUARTER ENDED NOVEMBER 1, 2003

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Item 1. Financial Statements

BIG LOTS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)
(In thousands, except per share amounts)

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
Net sales	$948,117	$868,163	$2,845,774	$2,651,559
Costs and expenses:				
Cost of sales	555,897	501,919	1,663,801	1,538,551
Selling and administrative expenses	396,947	369,160	1,175,044	1,080,707
Operating (loss) income	(4,727)	(2,916)	6,929	32,301
Interest expense	3,769	5,488	12,480	15,691
Interest income	(37)	(14)	(768)	(495)
(Loss) income from continuing operations before income taxes	(8,459)	(8,390)	(4,783)	17,105
Income tax (benefit) expense	(3,341)	(3,314)	(1,889)	6,756
(Loss) income from continuing operations	(5,118)	(5,076)	(2,894)	10,349
Discontinued operations	(1,259)	—	(1,259)	—
Net (loss) income	$ (6,377)	$ (5,076)	$ (4,153)	$ 10,349
(Loss) income per common share — basic:				
Continuing operations	$ (0.04)	$ (0.04)	$ (0.02)	$ 0.09
Discontinued operations	(0.01)	—	(0.02)	—
Net (loss) income	$ (0.05)	$ (0.04)	$ (0.04)	$ 0.09
(Loss) income per common share — diluted:				
Continuing operations	$ (0.04)	$ (0.04)	$ (0.02)	$ 0.09
Discontinued operations	(0.01)	—	(0.02)	—
Net (loss) income	$ (0.05)	$ (0.04)	$ (0.04)	$ 0.09
Weighted average common shares outstanding:				
Basic	116,877	116,120	116,703	115,771
Dilutive effect of stock options	—	—	—	1,025
Diluted	116,877	116,120	116,703	116,796

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

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BIG LOTS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(In thousands, except par value)

	(Unaudited) November 1, 2003	February 1, 2003
ASSETS		
Current assets:		
Cash	$ 32,008	$ 23,193
Cash equivalents	—	143,815
Inventories	987,111	776,210
Deferred income taxes	66,495	61,221
Other current assets	92,958	64,728
Total current assets	1,178,572	1,069,167
Property and equipment — net	590,401	532,264
Deferred income taxes	17,228	17,766
Other assets	21,208	23,074
	$1,807,409	$1,642,271
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 359,423	$ 241,905
Accrued liabilities	135,614	169,002
Total current liabilities	495,037	410,907
Long-term obligations	280,800	204,000
Other liabilities	1,088	1,183
Commitments and contingencies		
Shareholders' equity:		
Common stock — authorized 290,000 shares, $.01 par value; issued 116,908 shares and 116,165 shares, respectively	1,169	1,162
Additional paid-in capital	466,492	458,043
Retained earnings	562,823	566,976
Total shareholders' equity	1,030,484	1,026,181
	$1,807,409	$1,642,271

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

BIG LOTS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity (Unaudited)
(In thousands, except per share amounts)

	Common Stock Issued		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance — February 2, 2002	114,398	$1,144	$435,970	$490,419	$ 927,533
Net income	—	—	—	10,349	10,349
Exercise of stock options	1,302	13	17,162	—	17,175
Employee benefits paid with common stock	444	5	4,637	—	4,642
Balance — November 2, 2002	116,144	1,162	457,769	500,768	959,699
Net income	—	—	—	66,208	66,208
Exercise of stock options	21	—	274	—	274
Employee benefits paid with common stock	—	—	—	—	—
Balance — February 1, 2003	116,165	1,162	458,043	566,976	1,026,181
Net loss	—	—	—	(4,153)	(4,153)
Exercise of stock options	309	3	3,888	—	3,891
Employee benefits paid with common stock	434	4	4,561	—	4,565
Balance — November 1, 2003	116,908	$1,169	$466,492	$562,823	$1,030,484

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

BIG LOTS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Thirty-nine weeks ended	
	November 1, 2003	November 2, 2002
Operating activities:		
Net (loss) income	$ (4,153)	$ 10,349
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Discontinued operations	1,259	—
Depreciation and amortization	67,642	63,726
Deferred income taxes	(4,737)	25,498
Loss on sales of equipment	1,533	622
Employee benefits paid with common stock	4,565	4,642
Other	321	57
Change in assets and liabilities, excluding the effect of discontinued operations	(156,260)	(148,827)
Net cash used in operating activities	(89,830)	(43,933)
Investing activities:		
Capital expenditures	(124,892)	(67,746)
Proceeds from sale of equipment	105	2,137
Other	(200)	1,688
Net cash used in investing activities	(124,987)	(63,921)
Financing activities:		
Proceeds from long-term debt arrangements	76,800	89,400
Proceeds from exercise of stock options	3,477	15,847
Bank and bond fees	(460)	(4,466)
Net cash provided by financing activities	79,817	100,781
Decrease in cash and cash equivalents	(135,000)	(7,073)
Cash and cash equivalents:		
Beginning of period	167,008	28,822
End of period	$ 32,008	$ 21,749
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 8,652	$ 8,471
Cash paid for income taxes (excluding refunds)	$ 44,878	$ 34,741

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

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

Note 1 – Basis of Presentation

All references herein to the “Company” are to Big Lots, Inc. and its subsidiaries. The Condensed Consolidated Financial Statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial information. The Condensed Consolidated Balance Sheet at November 1, 2003, the Condensed Consolidated Statements of Operations and Statements of Cash Flows for the thirteen and thirty-nine week periods ended November 1, 2003 and November 2, 2002, as well as the Condensed Consolidated Statements of Shareholders’ Equity for the thirty-nine week periods ended November 1, 2003 and November 1, 2002, respectively, have been prepared by the Company without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations, and cash flows for all periods presented have been made. Such adjustments consisted only of normal recurring items. The Condensed Consolidated Financial Statements include the accounts of the Company and those subsidiaries for which the Company, directly or indirectly, has the ability to exercise significant influence over operating and financial policies. All significant intercompany transactions have been eliminated.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted or condensed, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is recommended that the Condensed Consolidated Financial Statements be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended February 1, 2003. Interim results are not necessarily indicative of results for a full year.

Note 2 – Summary of Significant Accounting Policies

Segment Reporting

The Company manages its business on the basis of one segment, broadline closeout retailing. At November 1, 2003 and November 2, 2002, all of the Company’s operations were located within the United States.

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 instruments at or above investment grade.

Management 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 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.

Merchandise Inventories

Merchandise inventories are carried at the lower of cost or market on a first-in, first-out basis, primarily on the retail method. Certain assumptions are made to properly record inventory at the lower of cost or market, and these assumptions are based on historical experience and current information. The Company’s assumptions include significant judgments and estimates made by management including merchandise markup, markdowns, shrinkage, and the aging of inventories, each of which could significantly impact the ending inventory valuation at cost as well as the resulting gross margins. 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.

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." 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 (loss) income and net (loss) income per share would have been adjusted to the pro forma amounts as follows:

	Thirteen weeks ended		Thirty-nine weeks ended	
(In thousands, except per share amounts)	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
Net (loss) income:				
As reported	$(6,377)	$(5,076)	$(4,153)	$10,349
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effect	1,563	266	4,756	3,775
Pro forma	$(7,940)	$(5,342)	$(8,909)	$ 6,574
(Loss) income per common share — basic:				
As reported	$ (0.05)	$ (0.04)	$ (0.04)	$ 0.09
Pro forma	$ (0.07)	$ (0.05)	$ (0.08)	$ 0.06
(Loss) income per common share — diluted:				
As reported	$ (0.05)	$ (0.04)	$ (0.04)	$ 0.09
Pro forma	$ (0.07)	$ (0.05)	$ (0.08)	$ 0.06

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:

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
Weighted-average fair value of options granted	$8.25	$8.92	$5.36	$6.51
Risk-free interest rates	3.0%	4.3%	3.0%	4.3%
Expected life (years)	4.2	4.7	4.8	5.4
Expected volatility	57.7%	54.8%	58.1%	54.8%

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. Where there is an indication of impairment, the Company evaluates the fair value and future benefits of the related long-lived asset, and the anticipated undiscounted future net cash flows from the related 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 long-lived assets are based on the discounted future cash flows.

Computer Software Costs

The Company records software development costs in accordance with the American Institute of Certified Public Accountants' ("AICPA") Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

Income Taxes

The Company has generated deferred tax assets or liabilities due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has established a valuation allowance to reduce its deferred tax assets to the balance that is more likely than not to be realized. The Company records liabilities relating to income taxes utilizing known obligations and estimates of potential obligations. Income tax related contingent liabilities are adjusted periodically to reflect new facts and circumstances, case law updates, settlements, and the expiration of the statute of limitations.

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 estimates and assumptions involved in retirement benefits, differences between actual future events and prior estimates and assumptions could result in adjustments to pension expenses and obligations. Such assumptions include the discount rate, the rate of increase in compensation levels, and the expected long-term rate of return on the related assets.

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.

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 the other distribution network costs as selling and administrative expenses. Due to this classification, the Company's gross margins 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), warehousing and distribution costs, advertising, buying, depreciation, insurance, and overhead costs in selling and administrative expenses.

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 November 1, 2003, the amount of the Company's intangible assets was $0.42 million and the related accumulated amortization was $0.03 million.

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 November 1, 2003, the Company held no available-for-sale equity securities.

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.

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 center. However, when the shipping terms are FOB destination, recognition of sales revenue is delayed until completion of delivery to the buyer's place of business.

Other Comprehensive Income

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

Reclassification

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

Note 3 — 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 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 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 Statement have been adopted.

Note 4 – Discontinued Operations

On August 20, 2003, the Company announced that it reached an agreement to settle a national class action lawsuit relating to certain advertising practices of KB Toys. The KB Toy Division was sold by the Company on December 7, 2000. The lawsuit alleged that KB Toys improperly used comparative pricing in its advertisements before and after such sale. The settlement called for the payment of certain attorneys' fees and administrative expenses, discounts to be provided to KB customers and a toy donation to national charities. The total value of the settlement was $4.0 million, of which the Company contributed $2.1 million. Accordingly, the Company recorded a one-time after-tax charge of $1.3 million to discontinued operations in the third quarter of fiscal 2003.

Note 5 – Debt

On May 8, 2001, the Company entered into a senior revolving credit agreement ("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. There were $76.8 million and $89.4 million direct borrowings outstanding under the Revolving Credit Agreement at November 1, 2003 and November 2, 2002, respectively. There were no borrowings under the Revolving Credit Agreement at February 1, 2003.

Also on May 8, 2001, the Company entered into the Senior Note 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 long-term debt for the current and next four fiscal years are as follows:

2003	—
2004	—
2005	$174 million
2006	$ 15 million
2007	$ 15 million

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.

Both the Revolving Credit and Senior Note Agreements 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.

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, both the Revolving Credit Agreement and Senior Note Agreement were amended to exclude the non-cash fiscal 2001 fourth quarter charge 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 both the Revolving Credit and Senior Note Agreements, 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 November 1, 2003, the Company's borrowing base was $274.8 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, existing cash balances, and the Senior Notes, provide sufficient liquidity to meet its operating and seasonal borrowing needs.

The amortization of debt issuance costs is included in interest expense in the Condensed Consolidated Statement of Operations.

Note 6 – Contingencies and Litigation

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. Where and to the extent the Company believes a loss is probable and can be reasonably estimated, the Company will record a liability.

On August 20, 2003, the Company announced that it reached a preliminary agreement to settle purported class action lawsuits filed in the Superior Court of San Bernardino County, California, relating to the calculation of earned overtime wages for certain of the Company's former and current store managers and assistant store managers in that state. Each of the lawsuits was filed by plaintiffs who are current or former store managers or assistant store managers on behalf of themselves and other similarly situated store managers and assistant store managers. The lawsuits alleged that the Company improperly classified such employees as exempt under California's wage and hour laws. The settlement, which addresses claims dating back to 1996, fully resolves all claims brought by the plaintiffs in these California lawsuits. Pursuant to the terms of the settlement, the Company would make a cash settlement payment of $10 million to cover claims by eligible class members, attorneys' fees and costs of the class members, cost to a third-party administrator, and applicable employer payroll taxes. While the settlement is still subject to final court approval, the Company believes that the liability is both probable and can be reasonably estimated; accordingly, the Company recorded a one-time after-tax charge of $6.4 million in the second quarter of fiscal 2003. The Company does not expect the settlement to have a material impact on its cost structure going forward.

As discussed in Note 4 to the Condensed Consolidated Financial Statements, the Company has recently reached an agreement to settle a national class action lawsuit relating to certain advertising practices of KB Toys. KB Toys was sold by the Company on December 7, 2000 and therefore the settlement costs were recorded to discontinued 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, the employment-related matter described above and the lawsuit related to certain advertising practices of KB Toys, the Company has not recorded any additional liabilities for legal matters.

Note 7 – Additional Data

The following is a summary of certain financial data:

(In thousands)	November 1, 2003	February 1, 2003
Accounts receivable	$ 25,714	$ 21,878
Prepaid expenses and other current assets	67,244	42,850
Other current assets	$ 92,958	$ 64,728
Property and equipment — at cost	$1,210,233	$1,094,490
Less accumulated depreciation	619,832	562,226
Property and equipment — net	$ 590,401	$ 532,264
Salaries and wages	$ 32,387	$ 48,687
Property, payroll, and other taxes	95,252	94,642
Interest and income taxes	7,975	25,673
Accrued liabilities	$ 135,614	$ 169,002

The following analysis supplements changes in assets and liabilities, excluding the effect of discontinued operations, presented in the Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks ended:

(In thousands)	November 1, 2003	November 2, 2002
Inventories	$(210,901)	$(239,471)
Other current assets	(28,230)	(12,500)
Accounts payable	117,518	76,831
Accrued liabilities	(34,647)	26,313
Change in assets and liabilities, excluding the effect of discontinued operations	$(156,260)	$(148,827)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement for Purposes of "SAFE HARBOR" Provisions of the Securities Litigation Reform Act of 1995

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

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

The Company's ability to achieve such results is subject to certain risks and uncertainties, any one, or a combination, of which could materially affect the results of the Company's operations. These factors include: sourcing and purchasing merchandise; the cost of the merchandise; economic and weather conditions which affect buying patterns of the Company's customers; changes in consumer spending and consumer debt levels; inflation; the Company's ability to anticipate buying patterns and implement appropriate inventory strategies; continued availability of capital and financing; competitive pressures and pricing pressures; the Company's ability to comply with the terms of its credit facilities (or obtain waivers for non-compliance); interest rate fluctuations; transportation and distribution delays or interruptions, including, but not limited to, the impact of the recent management lockout of the West Coast dockworkers and any ongoing work slowdown on the economy and on the Company's ability to receive inventory; fuel price fluctuations; interruptions in suppliers' businesses; costs and potential problems and interruptions associated with implementation of new or upgraded systems and technology; a deterioration in general economic conditions caused by acts of war or terrorism; delays associated with constructing, opening and operating new stores; and other risks described from time to time in the Company's filings with the Securities and Exchange Commission, in its press releases, and in other communications.

Consequently, all of the forward-looking statements are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by the Company will be realized or that they will have the expected effects on the Company or its business or operations.

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

Recent Announcements

In conjunction with the Company's initiative to change its name to Big Lots, Inc., 434 stores were converted during the fiscal years of 2001 and 2002, including 380 stores previously operating under the names Odd Lots, Mac Frugal's, and Pic 'N' Save, and the remodeling of 54 existing Big Lots stores located in conversion markets. As of the end of fiscal 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 made varied by location and included, among other things, painting, lighting retrofits, new signage (interior and exterior), new flooring, and updated restrooms. The Company believes that Big Lots is its most recognizable brand name and that this change offered numerous opportunities to increase brand awareness among customers, suppliers, investors, and the general public. The Company believes the change also allowed it to leverage television advertising and other expenses.

In August 2003, the Company finished this year's remodel program by completing 211 stores. The remodels this year 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 been remodeled in the past two and one half years, or are new stores opened in the past five years consistent with the upgraded store standards.

Year-to-date, the Company added a net of 133 new furniture departments, 60 of which are in new stores, and 73 were added to existing stores by expanding the store or eliminating hanging apparel. Square footage allocated to furniture departments has expanded in approximately 240 existing stores by eliminating hanging apparel. Construction of the Company's fifth distribution center in Durant, Oklahoma, is nearing completion as installation of the interior racking and conveyor system begins. The Durant distribution center is scheduled to begin shipping merchandise in the first quarter of fiscal 2004, expanding the distribution center infrastructure to support approximately 1,750 stores.

The Company continued its national television campaign that began in the first quarter of fiscal 2003 which, for the first time, covered all stores in all markets. Markets that received television coverage during fiscal 2002 will remain at their historical media target rating point levels, while new markets not previously covered will benefit from television advertising for the first time. The Company estimates that approximately 40% of stores received television advertising coverage during the first half of fiscal 2002, with approximately 60% receiving television advertising coverage during the second half of fiscal 2002. New television commercials have been produced for fiscal 2003 to build awareness and to promote the Big Lots brand. Through the third quarter of fiscal 2003, over 550 stores are benefiting from television for the first time as all of the Company's 1,424 stores now have television advertising. In addition to television advertising, the Company promotes its business through advertising circulars. During 2003, the Company plans to distribute 25 circulars, one less than in 2002.

On August 20, 2003, the Company announced that it reached a preliminary agreement to settle purported class action lawsuits filed in the Superior Court of San Bernardino County, California, relating to the calculation of earned overtime wages for certain of the Company's former and current store managers and assistant store managers in that state. Each of the lawsuits was filed by plaintiffs who are current or former store managers or assistant store managers on behalf of themselves and other similarly situated store managers and assistant store managers. The lawsuits alleged that the Company improperly classified such employees as exempt under California's wage and hour laws. The settlement, which addresses claims dating back to 1996, fully resolves all claims brought by the plaintiffs in these California lawsuits. Pursuant to the terms of the settlement, the Company would make a cash settlement payment of $10 million to cover claims by eligible class members, attorneys' fees and costs of the class members, cost to a third-party administrator and applicable employer payroll taxes. While the settlement is still subject to final court approval, the Company believes that the liability is both probable and can be reasonably estimated; accordingly, the Company recorded a one-time after-tax charge of $6.4 million in the second quarter of fiscal 2003. The Company does not expect the settlement to have a material impact on its cost structure going forward.

On August 20, 2003, the Company announced that it reached an agreement to settle a national class action lawsuit relating to certain advertising practices of KB Toys. The KB Toy Division was sold by the Company on December 7, 2000. The lawsuit alleged that KB Toys improperly used comparative pricing in its advertisements before and after such sale. The settlement called for the payment of certain attorneys' fees and administrative expenses, discounts to be provided to KB customers and a toy donation to national charities. The total value of the settlement was $4.0 million, of which the Company contributed $2.1 million. Accordingly, the Company recorded a one-time after-tax charge of $1.3 million to discontinued operations in the third quarter of fiscal 2003.

On July 31, 2003, the Revolving Credit Agreement was 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.

Overview

The Company is the nation's largest broadline closeout retailer. At November 1, 2003, the Company operated a total of 1,424 stores in 45 states under the names BIG LOTS and BIG LOTS FURNITURE. The Company's goal is to build upon its leadership position in broadline closeout retailing, a growing segment of the retailing industry, 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 future growth.

Wholesale operations are currently conducted through BIG LOTS WHOLESALE, CONSOLIDATED INTERNATIONAL, WISCONSIN TOY, and with online purchasing at biglotswholesale.com.

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 quarter. In addition, the Company's quarterly results can be affected by the timing of store openings and closings, the amount of net sales contributed by new and existing stores, as well as the timing of remodels, television and circular advertising, and the timing of certain holidays. Furthermore, in anticipation of increased sales activity during the fourth quarter, the Company purchases a substantial amount of inventory during the third quarter and hires a significant number of temporary employees to increase store staffing during the fourth quarter.

The seasonality of the Company's business also influences the Company's demand for seasonal borrowings. The Company historically has drawn upon its credit lines in the first three fiscal quarters and has substantially repaid these borrowings during the fourth fiscal quarter. During the fiscal year 2002, the Company did not begin drawing on its credit lines until the third quarter and had completely repaid these seasonal borrowings prior to the end of the fourth quarter. During the current fiscal year, the Company did not begin drawing on its seasonal credit lines until the third quarter and expects to completely repay these seasonal borrowings prior to the end of the fourth quarter.

The following table compares components of the Condensed Consolidated Statements of Operations of the Company as a percent of net sales and reflects the number of stores in operation at the end of each period.

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	41.4	42.2	41.5	42.0
Selling and administrative expenses	41.9	42.5	41.3	40.8
Operating (loss) profit	(0.5)	(0.3)	0.2	1.2
Interest expense	0.4	0.6	0.4	0.6
Interest income	(0.0)	(0.0)	(0.0)	(0.0)
(Loss) income from continuing operations before income taxes	(0.9)	(1.0)	(0.2)	0.6
Income tax (benefit) expense	(0.4)	(0.4)	(0.1)	0.3
(Loss) income from continuing operations	(0.5)	(0.6)	(0.1)	0.4
Discontinued operations	(0.1)	0.0	(0.0)	0.0
Net (loss) income	(0.7)%	(0.6)%	(0.1)%	0.4%
Number of stores in operation at the end of the period	1,424	1,371	1,424	1,371

Results of Operations

Net Sales

Net sales increased to $948.1 million for the thirteen week period ended November 1, 2003, from $868.2 million for the thirteen week period ended November 2, 2002, an increase of $79.9 million, or 9.2%. This increase resulted principally from a comparable stores sales increase of 4.3% and an increase of 53 new stores year over year (net of store closings). The Company attributes its third quarter comparable store sales increase of 4.3% to an increase in the number of customer transactions of 2.3% and an increase in the dollar value of the average basket of 2.0%.

Net sales increased to $2,845.8 million for the thirty-nine week period ended November 1, 2003, from $2,651.6 million for the thirty-nine week period ended November 2, 2002, an increase of $194.2 million, or 7.3%. This increase resulted from a comparable stores sales increase of 2.8% with the remaining 4.5% growth driven primarily by an increase of 53 new stores year over year (net of store closings). The Company attributes its year-to-date comparable store sales increase of 2.8% to an increase in the number of customer transactions of 1.5% and an increase in the value of the average basket of 1.3%.

The third quarter comparable store sales increases were primarily driven by strong gains in furniture, consumables and hardlines. Year-to-date comparable store sales growth is driven primarily by furniture, consumables, hardlines and domestics. Comparable store sales are calculated using all stores that have been open for at least two years as of the beginning of the fiscal year.

The Company believes the increase in the number of customer transactions and the increase in the dollar value of the average transaction for the thirteen and thirty-nine week periods ended November 1, 2003, may have resulted from several factors such as the launch of the Company’s first national television advertising campaign, more productive advertising circulars, the successful re-grand opening of 434 conversion stores and 211 remodel stores since March 2001, the introduction of furniture departments in 133 additional stores, as well as the allocation of additional square footage to approximately 240 furniture departments in existing stores, and more reliable in-stock levels on consumables products.

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 transaction. The following table summarizes the comparable quarter and year-to-date store sales increases for all reportable periods as well as growth in customer transactions and in the value of the average transaction:

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
Comparable store sales	4.3%	7.1%	2.8%	10.3%
Customer transactions	2.3%	3.1%	1.5%	4.8%
Value of the average transaction	2.0%	4.0%	1.3%	5.5%

Gross Profit

Gross profit increased $26.0 million in the third quarter of fiscal 2003 to $392.2 million from $366.2 million in the third quarter of fiscal 2002. Gross profit as a percent of net sales decreased to 41.4% in the third quarter of fiscal 2003 compared to 42.2% in the third quarter of fiscal 2002. The gross profit rate decrease for the thirteen week period is principally due to product mix, with lower markup categories such as consumables comprising a greater portion of the product mix compared to the prior year.

Gross profit increased $69.0 million in the first three quarters of fiscal 2003 to $1,182.0 million from $1,113.0 million in the first three quarters of fiscal 2002. Gross profit as a percent of net sales decreased to 41.5% in the first three quarters of fiscal 2003 compared to 42.0% in the first three quarters of the prior year. The gross profit rate decrease for the thirty-nine week period is driven by product mix, primarily due to better than expected sales in lower markup categories such as consumables, as well as higher markdowns related to the promotion of spring decorative merchandise.

Selling and Administrative Expenses

Selling and administrative expenses increased $27.7 million in the third quarter of fiscal 2003 to $396.9 million from $369.2 million in the third quarter of fiscal 2002. As a percent of net sales, selling and administrative expenses improved 60 basis points to 41.9% from 42.5% in the prior year third quarter.

The 60 basis point improvement in the selling and administrative expense rate is primarily attributable to leverage across store occupancy and other store related expenses, non-television advertising expense, and insurance, partially offset by the deleveraging impact of distribution and transportation costs and investment spending related to 2003 business initiatives (primarily national television advertising).

Selling and administrative expenses increased $94.3 million in the first three quarters of fiscal 2003 to $1,175.0 million from $1,080.7 million in the first three quarters of fiscal 2002. As a percent of net sales, selling and administrative expenses increased 50 basis points to 41.3% from 40.8% in the prior year thirty-nine week period.

The year-to-date 50 basis point increase in the selling and administrative expense rate is primarily attributable to the $10.5 million charge to settle purported class action lawsuits in California. Excluding this item, the selling and administrative rate year-to-date has increased 10 basis points over the same period of the prior year. This remaining 10 basis point increase is attributable to investment spending related to fiscal 2003 business initiatives, primarily national television advertising and store remodels, partially offset by leverage in general office expenses as well as store occupancy and other store related expenses.

Warehousing and distribution costs, which are included in Selling and Administrative Expenses (see Summary of Significant Accounting Policies in Note 2 to the Condensed Consolidated Financial Statements), increased 40 basis points as a percent of net sales for the third quarter, primarily due to product mix as well as the timing of shipments of seasonal holiday merchandise and toys. The product mix impact is attributable to consumables, which increased as a percent of the overall product mix compared to the prior year, and carry relatively higher distribution and transportation costs. Year-to-date warehousing and distribution costs as a percent of net sales compared to fiscal 2002 remained flat.

Interest Expense

Interest expense, including the amortization of debt issuance costs, was $3.8 million in the third quarter of fiscal 2003 compared to $5.5 million in the third quarter of fiscal 2002, and was $12.5 million for the thirty-nine week period ended November 1, 2003 compared to $15.7 million for the thirty-nine week period ended November 2, 2002. As a percent of net sales, interest expense declined 20 basis points for both the quarter and year-to-date as compared to fiscal 2002. The decrease in interest expense for the quarter and year-to-date compared to the same period in fiscal 2002 is primarily due to the capitalization of interest expense related to construction costs for the new distribution center in Durant, Oklahoma. The fiscal 2003 and 2002 interest expense primarily relates to the Senior Notes and the amortization of debt issuance costs.

Interest Income

Interest income was $0.04 million in the third quarter of fiscal 2003 compared to $0.01 million in the third quarter of fiscal 2002. Year-to-date interest income was $0.8 million compared to $0.5 million in fiscal 2002. Interest income is generated by interest earned on cash equivalents and short-term investments. There were no cash equivalents at November 1, 2003 and November 2, 2002.

Discontinued Operations

On August 20, 2003, the Company announced that it reached an agreement to settle a national class action lawsuit relating to certain advertising practices of KB Toys. The KB Toy Division was sold by the Company on December 7, 2000. The lawsuit alleged that KB Toys improperly used comparative pricing in its advertisements before and after such sale. The settlement called for the payment of certain attorneys' fees and administrative expenses, discounts to be provided to KB customers and a toy donation to national charities. The total value of the settlement was $4.0 million, of which the Company contributed $2.1 million. Accordingly, the Company recorded a one-time after-tax charge of $1.3 million to discontinued operations in the third quarter of fiscal 2003.

Income Taxes

The effective tax rate of the Company is currently at 39.5%. This remains unchanged from the prior year effective tax rate.

The Company and its subsidiaries' income tax returns are routinely subject to audit. While the outcome of such audits or other income tax contingencies cannot be forecasted with certainty, the Company does record an estimate of potential obligations related to such matters. Resolution of these matters, including audit and appeal settlements, occurs periodically and related changes in the liabilities are adjusted upon closure and/or the expiration of the statute of limitations.

During the second quarter of fiscal 2003, the Internal Revenue Service ("IRS") concluded its field examination of the Company's 1997 through 2000 federal income tax returns, which includes the carryback of the net operating loss generated in fiscal 2000 primarily as a result of the disposition of KB Toys. As of November 1, 2003, the Company was awaiting final review of the examination and carryback by the congressional Joint Committee on Taxation. The Company received correspondence in late November advising that the congressional Joint Committee on Taxation had completed its consideration of the field examination report and found no exception to the conclusions the IRS had reached. Additionally, the IRS and the Company have agreed that the Company can amend its 1997 through 2001 federal income tax returns primarily for rollforward adjustments that resulted from prior IRS examinations.

Additional audit activity includes the examination of the MacFrugal's Bargains • Close-outs, Inc. consolidated tax returns for years prior to its acquisition by the Company. The audit is in the latter stages of review by the IRS Appeals division.

Management believes that resolution of the above matters will not have a material adverse effect on the Company's results of operations or financial condition.

Capital Resources and Liquidity

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 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.

Also on May 8, 2001, the Company entered into the Senior Note Agreement pursuant to which it completed a $204.0 million private placement of Senior Notes. Principal maturities of long-term debt for the current and next four fiscal years are as follows:

2003	—
2004	—
2005	$174 million
2006	$ 15 million
2007	$ 15 million

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.

Both the Revolving Credit and Senior Note Agreements 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.

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, both the Revolving Credit Agreement and Senior Note Agreement were amended to exclude the non-cash fiscal 2001 fourth quarter charge 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 both the Revolving Credit and Senior Note Agreements, 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 November 1, 2003, the Company's borrowing base was $274.8 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, existing cash balances, and the Senior Notes, provide sufficient liquidity to meet its operating and seasonal borrowing needs.

The amortization of debt issuance costs is included in interest expense in the statement of operations.

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 at November 1, 2003, was $683.5 million. Long-term obligations at November 1, 2003 were $280.8 million, consisting of $204.0 million in Senior Notes and $76.8 million under the Revolving Credit Agreement. In addition, $37.4 million was outstanding in letters of credit, which reside under the Revolving Credit Agreement. As a result, $160.6 million was available under the Revolving Credit Agreement at November 1, 2003.

Capital expenditures were $124.9 million for the thirty-nine week period ended November 1, 2003, an increase of $57.2 million from the same period of fiscal 2002. Capital expenditures in fiscal 2003 were primarily driven by the construction of a new distribution facility in Durant, Oklahoma, remodeling of existing stores, and new store openings. Capital expenditures in fiscal 2002 were primarily driven by investments in strategic initiatives in conjunction with the Company's strategic repositioning, as well as new store openings. Capital expenditures requirements in fiscal 2003 are anticipated to be approximately $160.0 to $165.0 million, primarily to complete the new distribution facility in Durant, Oklahoma, invest in new store and store expansions, and remodel 211 existing Big Lots stores.

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 are more fully described in the Summary of Significant Accounting Policies in the Notes to the Condensed Consolidated Financial Statements. The Company has certain critical accounting policies and accounting estimates, which are described below.

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 policy is to invest in instruments at or above investment grade.

Merchandise inventories. Merchandise inventories are carried at the lower of cost or market on a first-in, first-out basis, primarily on the retail method. Certain assumptions are made to properly record inventory at the lower of cost or market, and these assumptions are based on historical experience and current information. The Company's assumptions include significant judgments and estimates made by management including merchandise markup, markdowns, shrinkage, and the aging of inventories, each of which could significantly impact the ending inventory valuation at cost as well as the resulting gross margins. 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. Where there is an indication of impairment, the Company evaluates the fair value and future benefits of the related long-lived asset and the anticipated undiscounted future net cash flows from the related 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 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 has generated deferred tax assets or liabilities due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has established a valuation allowance to reduce its deferred tax assets to the balance that is more likely than not to be realized. The Company records liabilities relating to income taxes utilizing known obligations and estimates of potential obligations. Income tax related contingent liabilities are adjusted periodically to reflect new facts and circumstances, case law updates, settlements, and the expiration of the statute of limitations.

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 estimates and assumptions involved in retirement benefits, differences between actual future events and prior estimates and assumptions could result in adjustments to pension expenses and obligations. Such assumptions include the discount rate, rate of increase in compensation levels, and the expected long-term rate of return on the related assets.

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 the other distribution network costs as selling and administrative expenses. Due to this classification, the Company's gross margins 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), warehousing and distribution costs, advertising, buying, depreciation, insurance, and overhead costs in selling and administrative expenses.

The above listing is 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. See the Company's Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2003, which contain accounting policies and other disclosures required by accounting principles generally accepted in the United States of America.

Item 3. 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 2003 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 affect on the Company's financial condition.

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 liquidity, capital resources, financial position, or results of operations of the Company.

Item 4. 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 II. Other Information

Item 1. Legal Proceedings. Not applicable.

Item 2. Changes in Securities and Use of Proceeds. Not applicable.

Item 3. Defaults Upon Senior Securities. Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders. Not applicable.

Item 5. Other Information. Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) *Exhibits*

Exhibit No.	Document
10	Employment Agreement with John C. Martin dated December 1, 2003.
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.

(b) *Reports on Form 8-K*

The Company filed a Current Report on Form 8-K dated August 22, 2003, announcing that the Company had issued a press release and conducted a conference call setting forth the Company's results of operations for the year-to-date and quarter ended August 2, 2003, affirming its earnings guidance for its third and fourth quarters of fiscal year 2003, and disclosing the expectation to settle class action lawsuits. Copies of the Company's press release and the transcript of the conference call were attached to the Current Report on Form 8-K.

The Company filed a Current Report on Form 8-K dated September 12, 2003, announcing that the Company's Board of Directors approved revisions to the Company's Insider Trading Policy that permit its officers, directors and other insiders to enter into trading plans or arrangements for systematic trading in the Company's securities pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The Company also announced that it was advised that Brad A. Waite and Kent A. Larsson, both Executive Vice Presidents of the Company, entered into written trading plans for selling shares in the Company's securities. Their respective plans provide for trading in the Company's stock and options according to individual formulas as required under the Securities and Exchange Commission's rules, which formulas include quantities, pricing points, dates and other variables. The Company further indicated that it anticipated that, as permitted by Rule 10b5-1 and the Company's Insider Trading Policy, some or all of its officers, directors and other insiders may establish similar trading plans at some date in the future.

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Signature

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

BIG LOTS, INC.
(Registrant)

Dated: December 12, 2003

By: /s/ Jeffrey G. Naylor

Jeffrey G. Naylor
Senior Vice President and
Chief Financial Officer

EXHIBIT 10

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of the 1st day of December, 2003, 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 John C. Martin ("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 December 1, 2003 and shall continue thereafter until Executive's employment is terminated.

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 Fifty Thousand Dollars ($450,000). 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"). For the fiscal year ending January 31, 2004, Executive shall be eligible to participate and receive pro-rata bonus compensation, should a bonus in fact be earned, prorated to his December 1, 2003 hire date. 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 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) <u>Change in Control Defined.</u> 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, imports, 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¢ 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: John C. Martin
1600 Eldridge Parkway #2006
Houston, Texas 77077

(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. **<u>GOVERNING LAW, JURISDICTION AND ARBITRATION.</u>**

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 11th day of December, 2003.

Big Lots, Inc.	Executive
/s/ Albert J. Bell	/s/ John C. Martin
By: Albert J. Bell	Printed Name: John C. Martin
Its: Chief Administrative Officer	
Big Lots Stores, Inc.	
/s/ Brad A. Waite	
By: Brad A. Waite	
Its: Executive Vice President	

EXHIBIT 31.1

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 quarterly report on Form 10-Q 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: December 12, 2003

By: /s/ Michael J. Potter

Michael J. Potter
Chairman of the Board, Chief Executive Officer and President

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey G. Naylor, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: December 12, 2003

By: /s/ Jeffrey G. Naylor

Jeffrey G. Naylor
Senior Vice President and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and accompanies the quarterly report on Form 10-Q (the "Report") for the quarter ended November 1, 2003 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: December 12, 2003

/s/ Michael J. Potter

Michael J. Potter
Chairman of the Board, Chief Executive Officer and President

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and accompanies the quarterly report on Form 10-Q (the "Report") for the quarter ended November 1, 2003 of Big Lots, Inc. (the "Company"). I, Jeffrey G. Naylor, 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: December 12, 2003

/s/ Jeffrey G. Naylor

Jeffrey G. Naylor
Senior Vice President and
Chief Financial Officer