



**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**



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

For the quarterly period ended April 29, 2006

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 ☐

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

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

The number of the registrant's common shares, \$0.01 par value, outstanding as of June 2, 2006, was 114,006,911.

**BIG LOTS, INC.**  
**FORM 10-Q**  
**FOR THE FISCAL QUARTER ENDED APRIL 29, 2006**  
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## Part I. Financial Information

### Item 1. Financial Statements

#### BIG LOTS, INC. AND SUBSIDIARIES

#### Consolidated Statements of Operations (Unaudited)

(In thousands, except per share amounts)

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
Net sales	\$1,091,622	\$1,043,084
Cost of sales	653,300	617,426
Gross margin	438,322	425,658
Selling and administrative expenses	392,389	387,306
Depreciation expense	24,653	25,837
Operating profit	21,280	12,515
Interest expense	90	1,174
Interest income	(394)	(31)
Income from continuing operations before income taxes	21,584	11,372
Income tax expense	7,080	4,106
Income from continuing operations	14,504	7,266
Income (loss) from discontinued operations, net of tax benefit (expense) of \$506 and \$(331), respectively	(791)	534
Net income	\$ 13,713	\$ 7,800
Income (loss) per common share — basic		
Continuing operations	\$ 0.13	\$ 0.06
Discontinued operations	(0.01)	0.01
	\$ 0.12	\$ 0.07
Income (loss) per common share — diluted		
Continuing operations	\$ 0.13	\$ 0.06
Discontinued operations	(0.01)	0.01
	\$ 0.12	\$ 0.07
Weighted-average common shares outstanding:		
Basic	113,014	112,969
Dilutive effect of share-based awards	1,494	374
Diluted	114,508	113,343

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

**BIG LOTS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(In thousands, except par value)

	(Unaudited) April 29, 2006	January 28, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 74,541	\$ 1,710
Inventories	805,604	836,092
Deferred income taxes	76,824	78,539
Other current assets	62,971	77,413
Total current assets	1,019,940	993,754
Property and equipment — net	563,661	584,083
Deferred income taxes	23,813	18,609
Other assets	29,218	29,051
Total assets	\$1,636,632	\$1,625,497
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 184,768	\$ 169,952
Property, payroll, and other taxes	107,788	106,858
Accrued operating expenses	58,084	60,270
Insurance reserves	47,212	46,474
KB lease obligation	27,163	27,205
Accrued salaries and wages	22,248	25,171
Other current liabilities	11,687	593
Total current liabilities	458,950	436,523
Long-term obligations	—	5,500
Deferred rent	40,809	42,288
Insurance reserves	44,436	42,037
Other liabilities	19,815	20,425
Shareholders' equity:		
Preferred shares — authorized 2,000 shares; \$0.01 par value; none issued	—	—
Common shares — authorized 298,000 shares; \$0.01 par value; issued 117,495 shares; outstanding 112,714 shares and 113,932 shares, respectively	1,175	1,175
Treasury shares — 4,781 shares and 3,563 shares, respectively, at cost	(63,917)	(48,294)
Additional paid-in capital	464,371	468,563
Retained earnings	670,993	657,280
Total shareholders' equity	1,072,622	1,078,724
Total liabilities and shareholders' equity	\$1,636,632	\$1,625,497

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

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

	Common		Treasury		Additional	Retained	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Earnings	
Balance — January 29, 2005	112,780	\$1,175	4,715	\$(64,029)	\$470,976	\$667,368	\$1,075,490
Net income	—	—	—	—	—	7,800	7,800
Exercise of stock options	64	—	(64)	892	(158)	—	734
Tax benefit for exercise of stock options	—	—	—	—	21	—	21
Treasury shares used for matching contributions to savings plan	447	—	(447)	6,213	(1,041)	—	5,172
Treasury shares used for deferred compensation plan	3	—	(3)	139	—	—	139
Share-based employee compensation expense	—	—	—	—	155	—	155
Balance — April 30, 2005	113,294	1,175	4,201	(56,785)	469,953	675,168	1,089,511
Net loss	—	—	—	—	—	(17,888)	(17,888)
Exercise of stock options	536	—	(536)	7,400	(1,117)	—	6,283
Tax benefit for exercise of stock options	—	—	—	—	248	—	248
Treasury shares used for matching contributions to savings plan	—	—	—	(40)	40	—	—
Treasury shares used for deferred compensation plan	12	—	(12)	(113)	(41)	—	(154)
Restricted stock awarded, net of forfeitures	90	—	(90)	1,244	(1,244)	—	—
Share-based employee compensation expense	—	—	—	—	724	—	724
Balance — January 28, 2006	113,932	1,175	3,563	(48,294)	468,563	657,280	1,078,724
Net income	—	—	—	—	—	13,713	13,713
Purchases of common shares	(2,359)	—	2,359	(31,314)	—	—	(31,314)
Exercise of stock options	445	—	(445)	6,083	(881)	—	5,202
Tax benefit from share-based awards	—	—	—	—	367	—	367
Treasury shares used for matching contributions to savings plan	404	—	(404)	5,589	(415)	—	5,174
Treasury shares used for deferred compensation plan	5	—	(5)	77	(19)	—	58
Restricted stock awarded, net of forfeitures	287	—	(287)	3,942	(3,942)	—	—
Share-based employee compensation expense	—	—	—	—	698	—	698
Balance — April 29, 2006	112,714	\$1,175	4,781	\$(63,917)	\$464,371	\$670,993	\$1,072,622

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

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

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
Operating activities:		
Net income	\$ 13,713	\$ 7,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	23,281	25,492
Deferred income taxes	(3,489)	(7,115)
Loss (gain) on disposition of equipment	509	(8)
Employee benefits paid with common shares	5,174	5,172
Non-cash share-based compensation expense	698	155
Other	—	21
Change in assets and liabilities:		
Inventories	30,488	(2,014)
Other current assets	14,442	(355)
Other assets	(243)	1,546
Accounts payable	14,816	25,660
Other current liabilities	11,094	9,693
Accrued operating expenses	(2,352)	3,604
Other liabilities	1,803	5,473
Net cash provided by operating activities	109,934	75,124
Investing activities:		
Capital expenditures	(6,036)	(15,310)
Cash proceeds from sale of equipment	154	77
Other	(34)	(41)
Net cash used in investing activities	(5,916)	(15,274)
Financing activities:		
Proceeds from long-term obligations	14,600	529,300
Payment of long-term obligations	(20,100)	(581,600)
Proceeds from the exercise of stock options	5,202	734
Excess tax benefit from share-based awards	367	—
Payment for treasury shares acquired	(31,314)	—
Treasury shares used for deferred compensation plan	58	139
Deferred bank fees paid	—	1
Net cash used in financing activities	(31,187)	(51,426)
Increase in cash and cash equivalents	72,831	8,424
Cash and cash equivalents:		
Beginning of period	1,710	2,521
End of period	\$ 74,541	\$ 10,945

**Supplemental disclosure of cash flow information:**

Cash paid for interest	\$ 29	\$ 1,223
Cash paid for income taxes (excluding impact of refunds)	\$ 3	\$ 570

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

## **BIG LOTS, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements (Unaudited)**

#### **NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Big Lots, Inc. and subsidiaries (the “Company”) is the nation’s largest broadline closeout retailer operating 1,401 stores in 47 states. The Company manages its business on the basis of one segment: broadline closeout retailing. The Company has historically experienced, and expects to continue to experience, seasonal fluctuations, with a larger percentage of its net sales and operating profit realized in the fourth fiscal quarter. The Company makes available, free of charge, through its web site ([www.biglots.com](http://www.biglots.com)) under the “Investor Relations—Financial Information—SEC Filings” caption, its filings with the Securities and Exchange Commission (“SEC”). The contents of the Company’s web site are not part of this report.

The accompanying consolidated financial statements and these notes have been prepared in accordance with the rules and regulations of the SEC for interim financial information. The consolidated financial statements reflect all normal recurring adjustments which management believes are necessary to present fairly the Company’s financial condition, results of operations, and cash flows for all periods presented. These statements, however, do not include all information necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Interim results may not necessarily be indicative of results that may be expected for any other interim period or for the year as a whole. The accompanying consolidated financial statements and these notes should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended January 28, 2006 filed with the SEC (the “Annual Report on Form 10-K”).

#### **Selling and Administrative Expenses**

The Company includes store expenses (such as payroll and occupancy costs), outbound distribution and transportation costs to the Company’s stores, advertising, purchasing, insurance, non-income taxes, and overhead costs in selling and administrative expenses. Selling and administrative expense rates may not be comparable to those of other retailers that include outbound distribution and transportation costs in cost of sales. Outbound distribution and transportation costs included in selling and administrative expenses were \$57.9 million and \$56.5 million for the first quarter of fiscal years 2006 and 2005, respectively.

#### **Advertising**

Advertising costs are expensed as incurred, consist primarily of print and television advertisements, and are included in selling and administrative expenses. Advertising expenses were \$21.2 million and \$23.0 million for the first quarter of fiscal years 2006 and 2005, respectively.

#### **Reclassification**

Prior period amounts have been reclassified to conform to current period presentation, including the reclassification of amounts payable and accrued for inbound merchandise-related freight to accounts payable from accrued operating expenses on the consolidated balance sheet for all periods presented. The reclassification did not impact the Company’s previously reported net income, total assets, current liabilities and shareholders’ equity, or net cash provided by (used in) operating activities, investing activities, or financing activities in the accompanying consolidated financial statements.

#### **Fiscal Period**

The Company follows the concept of a 52-53 week fiscal year, which ends on the Saturday nearest to January 31. The fiscal quarters ended April 29, 2006 and April 30, 2005 were both comprised of thirteen weeks.

#### **NOTE 2 — SHARE-BASED COMPENSATION**

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS

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No. 123(R) requires all share-based payments to employees and directors, including grants of stock options, to be recognized in the financial statements based on their fair values. The Company adopted SFAS No. 123(R) on January 29, 2006, under the modified prospective method, in which the requirements of SFAS No. 123(R) are to be applied to new awards and to previously granted awards that are not fully vested on the effective date, but does not require restatement of previous years' financial statements. As of the effective date, the Company eliminated its balance of Unearned Compensation, which represented unrecognized compensation cost for restricted stock awards, and reclassified it to Additional Paid-In Capital, in accordance with the modified prospective method. The Company made a one-time election to adopt the transition method related to accounting for the tax effects of share-based awards as described in FASB Staff Position No. FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. Additionally, SFAS No. 123(R) requires that the benefit of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow.

The Company uses a binomial model to estimate the fair value of stock options granted on or after February 1, 2004. The fair value of stock options granted prior to February 1, 2004, was determined using the Black-Scholes model. The binomial model takes into account variables such as volatility, dividend yield rate, risk-free rate, contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of retirement of the option holder in computing the value of the option. Expected volatility was based in part on historical and current implied volatilities from traded options on the Company's common shares. The risk-free rate was based on U.S. Treasury security yields at the time of the grant. The dividend yield on the Company's common shares is assumed to be zero since the Company has not paid dividends and has no current plans to do so in the future. The expected life was determined from the binomial model. The model incorporated exercise and post-vesting forfeiture assumptions based on analysis of historical data. The assumptions used in the option pricing model for each of the respective periods were as follows:

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
Weighted-average fair value of options granted	\$5.28	\$4.60
Risk-free interest rate	4.6%	3.8%
Expected life (years)	4.6	5.3
Expected volatility	42.5%	41.8%
Expected annual forfeiture rate	3.0%	3.0%

In the fourth quarter of fiscal year 2005, the Company accelerated the vesting of stock options representing approximately 3.8 million of the Company's common shares awarded on or before February 21, 2005, under the Big Lots, Inc. 1996 Performance Incentive Plan and the Big Lots Director Stock Option Plan. Stock options awarded to the Company's current and former Chief Executive Officers were not accelerated. The decision to accelerate the vesting of stock options was made primarily to reduce non-cash compensation expense that would have been recorded in periods following the adoption of SFAS No. 123(R). The Company also believes this action will have a positive effect on associate morale and retention. This action resulted in an insignificant amount of expense recorded in the fourth quarter of fiscal year 2005 for the impact of the shares estimated to be modified and is expected to enable the Company to eliminate pretax expense of approximately \$11.7 million over the remaining period during which the stock options would have vested, subject to the impact of additional adjustments related to cancelled stock options. Additionally, a holding period was imposed that requires all directors, executive vice presidents, and senior vice presidents to refrain from selling shares acquired upon the exercise of the accelerated stock options until the date on which the exercise would have been permitted under the stock option's original vesting terms or, if earlier, the director's or officer's death, permanent and total disability, or termination of employment.

The impact of adopting SFAS No. 123(R) for the fiscal quarter ended April 29, 2006 was a \$0.7 million, pretax, increase in selling and administrative expenses (with an immaterial impact on earnings per share) due to recognizing expense on share-based awards. Because of the accelerated vesting of stock options in the fourth quarter of fiscal year 2005, the expense for the quarter ended April 29, 2006 is less than what would have been recognized without such acceleration. The total unearned compensation cost related to share-based awards outstanding at April 29, 2006 was approximately \$12.2 million. This compensation cost is expected to be recognized through March 2010 based on existing vesting terms with the weighted-average remaining expense recognition period being approximately 3.8 years from April 29, 2006.

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A summary of the stock option activity for the thirteen weeks ended April 29, 2006 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000's)
Outstanding stock options at January 28, 2006	10,690,745	\$14.52		
Granted	1,011,900	12.67		
Exercised	(445,189)	11.68		
Forfeited	(326,275)	14.57		
Outstanding stock options at April 29, 2006	10,931,181	\$14.46	5.98	\$19,905
Exercisable at April 29, 2006	8,812,281	\$14.97	5.74	\$15,327

Stock options granted to employees generally expire on the lesser of: 1) the term set by the Compensation Committee of the Board of Directors, which has historically been seven to ten years from the grant date; 2) one year following death or disability; or 3) three months following termination. Stock options granted may be either nonqualified or incentive stock options, and the exercise price may not be less than the fair market value of the underlying common shares on the date of award. Unless there is a change in control of the Company, the stock options generally vest ratably over a four-year or five-year period. Upon a change in control of the Company, all awards outstanding automatically vest.

Stock option grants are made annually to non-employee directors, approximately 90 days following the Annual Meeting of Shareholders, at an exercise price equal to 100% of the fair market value on the date of grant. The present formula provides to each non-employee director an annual grant of an option to acquire 10,000 of the Company's common shares which become fully exercisable over a three-year period: 20% of the shares on the first anniversary, 60% on the second anniversary, and 100% on the third anniversary. Options granted to non-employee directors expire on the lesser of: 1) 10 years plus one month; or 2) one year following death or disability; or 3) at the end of the trading window immediately following termination.

During the first quarter of fiscal year 2006, the Company granted approximately 1.0 million stock options that vest in equal amounts on the first four anniversaries of the grant date and have a contractual term of seven years. The Company values and expenses awards with graded vesting as a single award with an average estimated life over the entire award. The expense is recorded straight-line over the vesting period.

The following table summarizes information about the Company's stock options granted by the Company and outstanding at April 29, 2006:

Range of Prices		Options Outstanding			Options Exercisable	
Greater Than	Less Than or Equal	Options Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
\$ 7.79	\$11.25	2,274,580	6.1	\$10.95	1,621,180	\$10.88
\$11.26	\$11.74	2,283,900	6.8	11.66	2,251,100	11.66
\$11.75	\$12.66	2,312,720	6.6	12.28	1,131,020	12.00
\$12.67	\$15.05	2,316,040	7.3	14.62	2,065,040	14.61
\$15.06	\$43.38	1,743,941	2.2	25.39	1,743,941	25.39
		10,931,181	6.0	\$14.46	8,812,281	\$14.97

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A summary of the restricted stock activity for the thirteen weeks ended April 29, 2006 is as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested restricted stock at January 28, 2006	208,002	\$ 11.04
Granted	287,100	12.80
Vested	—	—
Forfeited	—	—
Nonvested restricted stock at April 29, 2006	495,102	\$12.06

During the first quarter of fiscal year 2006, the Company granted 287,100 performance-based restricted common shares. If the Company meets a threshold financial performance target and the grantee remains employed by the Company, the restricted common shares will vest at the start of the Company's first trading window five years after the granting of the award. If the Company meets a higher financial performance target and the grantee remains employed by the Company, the restricted common shares will vest at the start of the Company's first trading window after the Company files its Form 10-K with the SEC for the year in which the higher target is met. Compensation expense for the performance-based restricted common shares is recorded over the five year period based on the assumed achievement of the performance criteria.

During fiscal year 2005, the Company granted 100,000 restricted common shares with a closing market price of \$11.25. These restricted shares vest in thirds upon the attainment of mutually agreed common share price targets and fully after five years of service or upon the change in control of the Company.

During fiscal year 2004, the Company granted 172,000 restricted common shares with a closing market price of \$10.85. These restricted shares vest equally over three years. During fiscal year 2005, 53,998 of the restricted shares granted in fiscal year 2004 vested and 10,000 of the restricted shares granted in fiscal year 2004 were forfeited. The restricted shares granted during fiscal year 2004 will fully vest if the employee is involuntarily terminated without cause or upon change in control of the Company. The 2004 restricted share grants will be forfeited, in whole or in part, as applicable, if the employee voluntarily terminates his or her employment or if the employee is terminated for cause.

During the thirteen weeks ended April 29, 2006 and April 30, 2005, the following activity occurred under the Company's share-based compensation plans:

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
<i>(In thousands)</i>		
Total intrinsic value of stock options exercised	971	52
Total fair value of restricted stock vested	—	—

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Prior to the adoption of SFAS No. 123(R), the Company accounted for share-based compensation using the intrinsic value-based method of accounting in accordance with APB No. 25, *Accounting for Stock Issued to Employees*. The following table presents net income and earnings per share if the fair value method had been applied to all outstanding and unvested stock options for the quarter ended April 30, 2005:

	April 30, 2005
<i>(In thousands, except per share amounts)</i>	
Net income:	
As reported	\$ 7,800
Total share-based employee compensation expense determined under fair value method for all awards, net of related tax effect	(867)
Pro forma net income	\$ 6,933
Income per common share — basic:	
As reported	\$ 0.07
Pro forma	\$ 0.06
Income per common share — diluted:	
As reported	\$ 0.07
Pro forma	\$ 0.06

### NOTE 3 — DISCONTINUED OPERATIONS

The Company's discontinued operations for the first quarter of fiscal years 2006 and 2005 were comprised of the following:

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
<i>(In thousands)</i>		
Closed stores	\$ (1,886)	\$ 865
KB Toys matters	721	—
Pittsfield distribution center	(132)	—
Total pretax income (loss)	\$ (1,297)	\$ 865

#### Closed Stores

During fiscal year 2005, the Company closed 174 stores, of which 130 stores met the criteria for discontinued operations reporting. As such, the results specifically identifiable with respect to these 130 stores were classified as discontinued operations for all periods presented. The table below identifies the significant components of income (loss) from discontinued operations for the 130 closed stores for the first quarter of fiscal years 2006 and 2005.

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
<i>(In thousands)</i>		
Net sales	\$ —	\$ 56,006
Gross margin	—	23,011
Operating income (loss)	(1,886)	865
Income (loss) from discontinued operations, net of tax	\$ (1,149)	\$ 534

The costs incurred in the first quarter of fiscal year 2006 represent costs to exit these properties as well as continuing costs associated with approximately 40 closed stores with remaining lease terms.

At the end of fiscal year 2005, the Company had \$20.0 million of remaining obligations associated with these 130 closed stores recorded on its books for severance, benefits, and lease termination costs. During the first quarter of fiscal year 2006, the Company paid approximately \$5.2 million to settle a portion of these remaining obligations and recorded accretion of \$0.2 million on the lease liability, which was originally recorded at a discount.

#### **KB Toys Matters**

In the first quarter of fiscal year 2006, the Company recorded \$0.7 million in income in discontinued operations to reflect the reduction of insurance reserves specifically identifiable with respect to the KB Toys business. The Company sold the KB Toys business to KB Acquisition Corporation in December 2000, but the Company has certain continuing indemnification and guarantee obligations with respect to the KB Toys business. See Note 2 to the consolidated financial statements as filed in the Company's Annual Report on Form 10-K for a complete discussion of matters concerning the KB Toys business.

#### **Pittsfield Distribution Center**

In the first quarter of fiscal year 2006, the Company recorded a \$0.1 million charge in discontinued operations to reflect the costs incurred related to the Pittsfield distribution center, which is classified as held-for-sale.

#### **NOTE 4 — INCOME TAXES**

The effective income tax rate for the thirteen weeks ended April 29, 2006 for income from continuing operations was 32.8%. The income tax rate was lower than the statutory tax rate primarily due to a reduction in expense due to a net release of an income tax loss contingency related to the settlement/closure of certain tax matters.

## NOTE 5 — EMPLOYEE BENEFIT PLANS

The Company sponsors a qualified defined benefit pension plan and a nonqualified supplemental defined benefit pension plan covering certain employees whose hire date was before April 1, 1994.

The following table represents components of net periodic pension cost:

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
<i>(In thousands)</i>		
Service cost — benefits earned in the period	\$ 749	\$ 828
Interest cost on projected benefit obligation	791	787
Expected investment return on plan assets	(1,079)	(1,067)
Amortization of actuarial loss	352	331
Amortization of prior service cost	34	34
Amortization of transition obligation	3	3
Net periodic pension cost	\$ 850	\$ 916

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

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
Discount rate	5.7%	5.7%
Rate of increase in compensation levels	3.5%	4.0%
Expected long-term rate of return	8.5%	8.5%
Measurement date for plan assets and benefit obligations	12/31/05	12/31/04

The Company's funding for the defined benefit pension plans is not expected to be materially different than the amounts disclosed in the Annual Report on Form 10-K.

## NOTE 6 — SHAREHOLDERS' EQUITY

### Earnings per Share

There were no adjustments made to weighted-average common shares outstanding for purposes of computing basic and diluted earnings per share, and there were no securities outstanding which were excluded from the computation of earnings per share for any period presented herein. For the thirteen weeks ended April 29, 2006 and April 30, 2005, stock options outstanding, which were anti-dilutive and excluded from the computation of diluted earnings per share, were 5.2 million and 9.0 million, respectively.

As part of the stock repurchase program announced earlier in the year, the Company acquired approximately 2.3 million of its outstanding common shares at a cost of \$31.1 million during the first quarter of fiscal year 2006. These shares have been recorded as treasury shares, at cost.

## NOTE 7 — BUSINESS SEGMENT DATA

The Company manages its business based on one segment: broadline closeout retailing. The following presents net sales by category:

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
<i>(In thousands)</i>		
Consumables	\$ 321,034	\$ 300,119
Home	349,887	317,009
Seasonal and toys	189,674	193,795
Other	231,027	232,161
Net sales	\$1,091,622	\$1,043,084

The Home category includes furniture, domestics, and home décor departments. The Other category primarily includes electronics, small appliances, home maintenance, and tools departments. The Company internally evaluates and externally communicates overall sales and merchandise performance based on these key-merchandising categories and believes that these categories facilitate analysis of the Company's results.

## NOTE 8 — CONTINGENCIES

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

In November 2004, the Company was served a civil complaint wherein it was alleged that the Company had violated the Fair Labor Standards Act regulations by misclassifying as exempt employees its furniture department managers, sales managers, and assistant managers. This lawsuit was filed as a putative collective action in the United States District Court for the Eastern District of Texas, Texarkana Division. A similar action was filed at the end of November 2004, in the United States District Court for the Eastern District of Louisiana. This lawsuit was also filed as a putative collective action alleging that the Company violated the Fair Labor Standards Act by misclassifying assistant managers as exempt. The plaintiffs in both cases are seeking to recover, on behalf of themselves and all other individuals who are similarly situated, alleged unpaid overtime compensation, as well as liquidated damages, attorneys' fees and costs. On July 5, 2005, the District Court in Louisiana issued an order conditionally certifying a class of all current and former assistant store managers who have worked for the Company since November 23, 2001. As a result of that order, notice of the lawsuit was sent to approximately 5,500 individuals who had the right to opt-in to the lawsuit. On August 8, 2005, the District Court in Texas issued an order conditionally certifying a class of all current and former employees who worked for the Company as a furniture department manager at any time between November 2, 2001, and October 1, 2003. As a result of that order, notice was sent to approximately 1,300 individuals who had the right to opt-in to the lawsuit. The Texas case will include furniture department managers only, whereas the Louisiana case will include only assistant store managers. As of May 24, 2006, approximately 1,100 individuals had joined the Louisiana case, and approximately 330 individuals had joined the Texas case. The Company has the right to file a motion seeking to decertify the classes after discovery has been conducted. Pending discovery on the plaintiffs' claims, the Company cannot make a determination as to the probability of a loss contingency resulting from either of these lawsuits or the estimated range of possible loss, if any. The Company intends to vigorously defend itself against the allegations levied in both lawsuits. However, the ultimate resolution of these matters could have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

On October 13, 2005, the Company was served a civil complaint wherein it was alleged that the Company had violated certain California wage and hour laws. This class action lawsuit was filed in the Superior Court of the State of California, County of Ventura. The plaintiff is seeking to recover, on her own behalf and on behalf of all other individuals who are similarly situated, alleged unpaid wages and rest and meal period compensation, as well as penalties, injunctive and other equitable relief.

reasonable attorneys' fees, and costs. Pending discovery on the plaintiff's claims, the Company cannot make a determination as to the probability of a loss contingency resulting from this lawsuit or the estimated range of possible loss, if any. The Company intends to vigorously defend itself against the allegations levied in this lawsuit. However, the ultimate resolution of this matter could have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

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

### **CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

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

Certain statements in this report are forward-looking statements within the meaning of the Act, and such statements are intended to qualify for the protection of the safe harbor provided by that Act. The words "anticipate," "estimate," "expect," "objective," "goal," "project," "intend," "plan," "believe," "will," "target," "forecast" and similar expressions generally identify forward-looking statements. Similarly, descriptions of our objectives, strategies, plans, goals or targets are also forward-looking statements. Forward-looking statements relate to the expectations of management as to future occurrences and trends, including statements expressing optimism or pessimism about future operating results or events and projected sales, earnings, capital expenditures and business strategy. Forward-looking statements are based upon a number of assumptions concerning future conditions that may ultimately prove to be inaccurate. Forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. Although we believe the expectations expressed in forward-looking statements are based on reasonable assumptions within the bounds of our knowledge, forward-looking statements, by their nature, involve risks, uncertainties and other factors, any one or a combination of which could materially affect our business, financial condition, results of operations or liquidity.

Forward-looking statements that we make herein and in other reports and releases are not guarantees of future performance and actual results may differ materially from those in such forward-looking statements as a result of various factors, including, but not limited to, the cost of goods, our inability to successfully execute strategic initiatives, competitive pressures, economic pressures on our customers and us, the availability of brand name closeout merchandise, trade restrictions, freight costs, the risks discussed in the Risk Factors section of our most recent Annual Report on Form 10-K, and other factors discussed from time to time in our other filings with the SEC, including Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. This report should be read in conjunction with such filings, and you should consider all of these risks, uncertainties and other factors carefully in evaluating forward-looking statements.

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 update forward-looking statements whether as a result of new information, future events or otherwise. Readers are advised, however, to consult any further disclosures the Company makes on related subjects in its public announcements and SEC filings.

## OVERVIEW

The Company is the nation's largest broadline closeout retailer operating 1,401 stores in 47 states. The Company manages its business on the basis of one segment: broadline closeout retailing. The Company has historically experienced, and expects to continue to experience, seasonal fluctuations, with a larger percentage of its net sales and operating profit realized in the fourth fiscal quarter.

The discussion and analysis presented below should be read in conjunction with the consolidated financial statements and related notes.

## STORES

The following table presents stores opened and closed during each respective thirteen week period:

	April 29, 2006	April 30, 2005
Stores open at the beginning of the fiscal year	1,401	1,502
Stores opened during the period	5	19
Stores closed during the period	(5)	(2)
Stores open at the end of the period	1,401	1,519

## RECENT DEVELOPMENTS

The Company made an effort in fiscal year 2005 to improve operating performance through the:

- Evaluation of individual store performance and the closure of 174 underperforming stores.
- Execution of a series of markdowns lowering in-store inventory levels in certain categories and improving turnover.
- Realignment of its field operations and elimination of some redundancies between closeout and furniture store operations.
- Reduction of personnel at its stores, distribution centers, and general office.
- Exit from the frozen food business.

The Company expects to improve operating performance in fiscal year 2006 through the following planned activities:

- Open fewer stores in fiscal year 2006 and focus efforts on improving operating results of existing stores.
- Test and execute newly developed merchandising plans focusing on obtaining higher gross margin dollars and improved inventory turnover.
- Continue to focus on improving efficiencies in the Company's purchasing and distribution practices intending to increase store productivity.
- Initiate a project that will result in the replacement of the Company's existing point of sale hardware and software, with installation primarily in fiscal years 2007 and 2008.

## RESULTS OF OPERATIONS

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

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
Net sales	100.0%	100.0%
Cost of sales	59.8	59.2
Gross margin	40.2	40.8
Selling and administrative expenses	35.9	37.1
Depreciation expense	2.3	2.5
Operating profit	2.0	1.2
Interest expense	0.0	0.1
Interest income	0.0	0.0
Income from continuing operations before income taxes	2.0	1.1
Income tax expense	0.7	0.4
Income from continuing operations	1.3	0.7
Discontinued operations	0.0	0.0
Net income	1.3%	0.7%

### THIRTEEN WEEKS ENDED APRIL 29, 2006 AND APRIL 30, 2005

#### Net Sales

Net sales increased to \$1,091.6 million for the thirteen weeks ended April 29, 2006, compared to \$1,043.1 million for the thirteen weeks ended April 30, 2005. This net sales increase of \$48.5 million, or 4.7%, resulted from new stores opened in fiscal years 2004, 2005, and the first quarter of fiscal year 2006, which are excluded from the comparable stores sales calculations, net of stores closed during the same period, combined with a 2.5% increase in comparable store sales for the first quarter of fiscal year 2006. 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. Comparable store sales in the first quarter of fiscal year 2006 were driven by continued strength in the value of the average basket as both units sold per transaction and average item retail increased compared to the same period in the prior year. This is the fourth consecutive quarter that both units sold and average item retail were up over the same period in the prior year, and the Company believes this is a positive trend that validates its strategy for the business in the near term. The Company believes the increase in the value of the average basket was also driven by improved performance of its advertising circulars helping to deliver positive comparable store sales across most major merchandising departments. The number of customer transactions in the first quarter of fiscal year 2006 continued its declining trend when compared to the number of customer transactions in the first quarter of fiscal year 2005, with particular softness in the Southwest. From a merchandising perspective, hardlines, furniture, food, health and beauty, domestics, and stationery were the best performing departments with comparable store sales up in the range of high single digits to low double digits. In contrast, comparable store sales in the Seasonal and toys category were below last year with particular softness in the Western region of the country.

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The following table details net sales by product category with the percentage of each category to total net sales and the net sales change in dollars and percentage from the first quarter of fiscal year 2006 to the same period in fiscal year 2005:

	Thirteen Weeks Ended					
	April 29, 2006		April 30, 2005		Change	
(\$ in thousands)						
Consumables	\$ 321,034	29.4%	\$ 300,119	28.8%	\$20,915	7.0%
Home	349,887	32.0	317,009	30.4	32,878	10.4
Seasonal and toys	189,674	17.4	193,795	18.6	(4,121)	(2.1)
Other	231,027	21.2	232,161	22.2	(1,134)	(0.5)
Net sales	\$1,091,622	100.0%	\$1,043,084	100.0%	\$48,538	4.7%

### Gross Margin

Gross margin increased to \$438.3 million for the thirteen weeks ended April 29, 2006, compared to \$425.7 million for the thirteen weeks ended April 30, 2005, an increase of \$12.6 million or 3.0%. Gross margin as a percentage of net sales decreased to 40.2% in the first quarter of fiscal year 2006 compared to 40.8% in the first quarter of fiscal year 2005. The Company's focus is on inventory turnover and gross margin dollars. Gross margin dollars are higher on a per store basis in the first quarter of fiscal year 2006 as compared to the first quarter in the prior year. The gross margin rate decrease was principally a result of better sales performance in lower margin merchandise offerings such as consumables and hardlines, while a higher margin category, Seasonal and toys, underperformed. Higher inbound freight costs due to high fuel prices continue to negatively impact the gross margin rate. Additionally, a slightly higher markdown rate in the first quarter of fiscal year 2006 is the direct result of the Company's strategy to drive inventory turn by more aggressively liquidating slower-moving items and classifications of merchandise. Initial mark-up on merchandise receipts in the first quarter of fiscal year 2006 was higher than initial mark-up on merchandise receipts in the first quarter of fiscal year 2005. Although the increase is not significant, it reverses a trend of declining initial mark-up percentage on merchandise receipts.

### Selling and Administrative Expenses

Selling and administrative expenses increased to \$392.4 million for the thirteen weeks ended April 29, 2006, compared to \$387.3 million for the thirteen weeks ended April 30, 2005, an increase of \$5.1 million or 1.3%. As a percentage of net sales, selling and administrative expenses were 35.9% for the first quarter of fiscal year 2006 compared to 37.1% for the first quarter of fiscal year 2005. Leverage was achieved primarily through the \$48.5 million increase in sales, tightly managed store payroll, the savings associated with the prior fiscal year headcount reductions, improved efficiency in the distribution centers, and lower advertising expense, a portion of which is expected to be incurred in the second quarter. The Company believes that as a result of lower in-store inventory levels, the stores are operating more efficiently.

Outbound distribution and transportation costs, which were included in selling and administrative expenses increased to \$57.9 million for the first quarter of fiscal year 2006 compared to \$56.5 million for the first quarter of fiscal year 2005. As a percentage of net sales, however, outbound distribution and transportation costs decreased by 10 basis points to 5.3% of net sales in the first quarter of fiscal year 2006 as compared to 5.4% for the same period in fiscal year 2005. The rate decrease was a function of higher productivity in the distribution system partially offset by the impact of higher fuel prices.

### Depreciation Expense

Depreciation expense for the first quarter of fiscal year 2006 was \$24.7 million compared to \$25.8 million for the same period of fiscal year 2005. The \$1.1 million decrease was primarily related to the elimination of depreciation expense on certain assets placed in service during fiscal years 2000 and 2001 which had useful lives of five years. In addition, the Company closed 174 stores in fiscal year 2005, 130 of which were reported as discontinued operations. The 44 stores closed in fiscal year 2005 not classified as discontinued operations incurred depreciation expense in the first quarter of fiscal year 2005, but not in the first quarter of fiscal year 2006.

### Interest Expense

Interest expense, including the amortization of debt issuance costs, was \$0.1 million for the thirteen weeks ended April 29, 2006, compared to \$1.2 million for the thirteen weeks ended April 30, 2005. Average borrowings under the Company's \$500.0

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million unsecured credit facility entered into in fiscal year 2004 (the "2004 Credit Agreement") were \$0.4 million during the first quarter of fiscal year 2006 compared to \$127.5 million during the first quarter of fiscal year 2005.

### Income Taxes

The effective income tax rate for the thirteen weeks ended April 29, 2006 for income from continuing operations was 32.8%, compared to an effective income tax rate of 36.1% for the same period in fiscal year 2005. The income tax rate decrease was primarily attributable to a reduction in expense due to a net release of an income tax loss contingency related to the settlement/closure of certain tax matters.

### Discontinued Operations

The Company's discontinued operations are comprised of the following:

(In thousands)	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
Closed stores	\$ (1,886)	\$ 865
KB Toys matters	721	—
Pittsfield distribution center	(132)	—
Total pretax income (loss)	\$ (1,297)	\$ 865

As discussed in Note 3 to the consolidated financial statements, the closed stores line item included operating activities such as net sales, gross margin, and operating income (loss) in the first quarter of fiscal year 2005 that are reported as discontinued operations. In fiscal year 2006, these same stores are primarily incurring exit-related costs to clean up and move out of properties. Additionally, some of these stores are leased properties with extended terms, which continue to incur costs such as utilities and security until the leases are terminated. As of April 29, 2006, the Company has approximately 40 closed stores with leases that have not yet been terminated.

In the first quarter of fiscal year 2006, the Company recorded \$0.7 million as income from discontinued operations to reflect the reduction of insurance reserves specifically identifiable with respect to the KB Toys business. The Company sold the KB Toys business to KB Acquisition Corporation in December 2000, but the Company has certain continuing indemnification and guarantee obligations with respect to the KB Toys business.

In the first quarter of fiscal year 2006, the Company recorded a \$0.1 million charge in discontinued operations to reflect the costs incurred related to the Pittsfield distribution center, which is classified as held-for-sale.

See Note 2 to the Company's consolidated financial statements in its Annual Report on Form 10-K filed with the SEC for a complete discussion of matters concerning the KB Toys business and the Pittsfield distribution center.

### CAPITAL RESOURCES AND LIQUIDITY

The Company uses the 2004 Credit Agreement and related credit facility primarily to manage ongoing and seasonal working capital. Through July 2006, the Company expects to have less than \$25.0 million in borrowings and between \$50.0 million and \$70.0 million in letters of credit under the 2004 Credit Agreement, excluding any impact resulting from the execution of the \$150.0 million share repurchase authorized by the Board of Directors in February, 2006. Borrowings by the Company have historically peaked in the third fiscal quarter as the Company builds inventory levels prior to the holiday selling season. Given the seasonality of the Company's business, the amount of borrowings under the 2004 Credit Agreement may fluctuate materially depending on various factors, including the time of year and the Company's need to acquire merchandise inventory. For a detailed description of the 2004 Credit Agreement, see Note 4 to the Company's consolidated financial statements in its Annual Report on Form 10-K.

Cash flows provided by operating activities were \$109.9 million for the thirteen weeks ended April 29, 2006, and resulted primarily from net income of \$13.7 million including depreciation and amortization expense of \$23.3 million, a reduction in inventories of \$30.5 million, a reduction in other current assets of \$14.4 million, an increase in accounts payable of \$14.8 million,

and an increase in other current liabilities of \$11.1 million. The reduction in inventories was primarily due to better management of inventory levels in the stores and at the distribution centers. The reduction in other current assets was primarily a result of a receipt of a tax refund. The increase in accounts payable was partly due to a shift to more domestically sourced merchandise. The increase in other current liabilities was primarily due to the tax provision payable on the fiscal year 2006 first quarter's taxable income.

Cash flows provided by operating activities were \$75.1 million for the thirteen weeks ended April 30 2005, and resulted primarily from net income of \$7.8 million, including depreciation and amortization expense of \$25.5 million, an increase in accounts payable of \$25.7 million due to a shift from less prepaid import inventory purchases to more domestic inventory purchased with extended payment terms, and an increase in other current liabilities of \$9.7 million primarily related to taxes currently payable on taxable income generated during the first quarter of fiscal year 2005.

Cash flows used in investing activities were \$5.9 million for the thirteen weeks ended April 29, 2006 compared to \$15.3 million for the thirteen weeks ended April 30, 2005. The reduction in cash used was primarily a result of lower capital expenditures due to opening fewer stores in fiscal year 2006 compared to fiscal year 2005.

Cash flows used in financing activities were \$31.2 million for the thirteen weeks ended April 29, 2006, compared to \$51.4 million for the thirteen weeks ended April 30, 2005. In the first quarter of fiscal year 2006, the Company paid down debt of \$5.5 million, purchased shares of Company stock for \$31.1 million, and received \$5.2 million of proceeds from the exercise of stock options. In the first quarter of fiscal year 2005, the Company paid down \$52.3 million in debt.

In February 2006, the Board of Directors authorized the repurchase of \$150.0 million of the Company's common shares. As of April 29, 2006, the Company had acquired \$31.1 million of Company stock; and, as a result, the Company has a remaining authorization of \$118.9 million which it may from time to time use to acquire additional Company stock.

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

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements, in conformity with GAAP, requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. On an on-going basis, management evaluates its estimates and judgments and bases its estimates and judgments on historical experience, current trends, and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. See Note 1 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for additional information about the Company's accounting policies.

The estimates that have a higher degree of inherent uncertainty and require the most significant judgments are outlined in management's discussion and analysis of financial condition and results of operations contained in the Annual Report on Form 10-K. Had the Company used estimates different from any of those contained in the Annual Report on Form 10-K, the Company's financial condition, results of operations, and liquidity for the current period could have been materially different from those presented.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is subject to market risk from exposure to changes in interest rates associated with the 2004 Credit Agreement. The Company had no fixed rate long-term debt at April 29, 2006. The Company does not expect changes in interest rates in fiscal year 2006 to have a material adverse effect on the Company's financial condition, results of operations, or liquidity; however, there can be no assurances that interest rates will not materially change. The Company does not believe that a hypothetical adverse change of 10% in interest rates would have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

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

#### Item 4. Controls and Procedures

##### *Evaluation of Disclosure Controls and Procedures*

The Company, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, performed an evaluation of the Company's disclosure controls and procedures pursuant to paragraph (b) of Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded, as of the end of the period covered by this report, that such disclosure controls and procedures were effective.

##### *Changes in Internal Control over Financial Reporting*

No changes in the Company's internal control over financial reporting, as that term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II. Other Information

#### Item 1. Legal Proceedings.

No response is required under Item 103 of Regulation S-K. For a discussion of certain litigated matters, see Note 8 to the accompanying consolidated financial statements.

#### Item 1A. Risk Factors.

There are no material changes to the risk factors as disclosed in the Annual Report on Form 10-K.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth information regarding the Company's repurchase of its common shares during the first quarter of fiscal year 2006:

*(In thousands, except price per share data)*

Period	Total Number of Shares Purchased (a)(b)	Average Price Paid per Share (c)	Total Cumulative Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 29, 2006 — February 25, 2006	186	\$ 12.71	172	\$ 147,814
February 26, 2006 — March 25, 2006	1,698	13.14	1,870	125,502
March 26, 2006 — April 29, 2006	475	13.97	2,345	118,855
Total	2,359	\$ 13.28	2,345	\$ 118,855

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- (a) On February 22, 2006, the Company announced that its Board of Directors authorized the repurchase of up to \$150.0 million of the Company's common shares over a twelve month period. Pursuant to this authorization, the Company purchased 2,345,400 common shares in the first quarter of fiscal year 2006 at a cost of \$31.1 million.
- (b) Included in the total number of shares purchased are approximately 14 thousand shares which were withheld for tax payments with respect to share-based compensation.
- (c) This amount represents the weighted-average price paid per common share. This price includes a per share commission paid for all repurchases.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Submission of Matters to a Vote of Security Holders.**

None.

### **Item 5. Other Information.**

None.

**Item 6. Exhibits.**

Exhibits marked with an asterisk (\*) are filed herewith. Exhibit 10.1 is a management contract or compensatory plan, contract or arrangement.

Exhibit No.	Document
10.1*	Employment Agreement with Norman J. Rankin.
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.

**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.

Dated: June 7, 2006

**BIG LOTS, INC.**

By: /s/ Joe R. Cooper

Joe R. Cooper  
*Senior Vice President and  
Chief Financial Officer*  
(Principal Financial Officer, Principal Accounting  
Officer and Duly Authorized Officer)

**EMPLOYMENT AGREEMENT**

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of the 14<sup>th</sup> day of December, 2004, by and among Big Lots, Inc., an Ohio corporation ("BLI"), Big Lots Stores, Inc., an Ohio corporation ("BLSI") (BLI, BLSI and their respective affiliates, predecessor, successor, subsidiaries and other related companies are hereinafter jointly referred to as "Employer"), and Norman J. Rankin ("Executive").

## WITNESSETH:

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

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

**1. EMPLOYMENT.**

- (a) Duties and Services. Employer hereby employs Executive as a Senior Vice President (or other appropriate title as designated by the Employer in its sole discretion) and Executive hereby accepts such employment, and shall perform services of a business, professional or commercial nature for the Employer in furtherance of the Employer's business. In performance of these duties, Executive shall be subject to the direction of and report to an individual holding one or more of the following titles: Chief Executive Officer, President, Chief Administrative Officer and/or Executive Vice President 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
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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 14, 2004 and shall continue thereafter until Executive's employment is terminated. This Agreement supersedes and replaces the Employment Agreement between Big Lots Stores, Inc. and its parent, affiliated, predecessor, successor, subsidiary and other related companies and Executive, entered into as of December 16, 2001.

## **3. COMPENSATION AND BENEFITS.**

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

4. **BONUS**.

Executive shall be eligible to participate in the 1998 Big Lots, Inc. Key Associate Annual Compensation Plan, as amended (or any such successor plan, hereinafter "Bonus Program").

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

5. **EXPENSES.**

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

6. **TERMINATION.**

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

- (a) Without Cause, Employer Termination. By Employer without cause at any time upon thirty (30) days notice to the Executive of such termination, or
  - (b) Without Cause, Executive Termination. By Executive without cause at any time upon thirty (30) days notice to the Employer of such termination, or
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- (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.**

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- (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;
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- (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

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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
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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
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days after the payment of the amount payable pursuant to Paragraph 8(a)(i) and 8(a)(ii) of this Agreement. Said incremental payment shall be made within five (5) business days after said determination has been made.

- (v) If, after the date upon which any payment is to be made under this Paragraph, it is determined (pursuant to final judgment of a court of competent jurisdiction or an agreed upon tax assessment) that the amount of excise or other similar taxes or assessments payable by Executive is greater than the amount initially so determined, then Employer shall pay Executive an amount equal to the sum of (i) such additional excise or other similar taxes, plus (ii) any interest, fines and penalties resulting from such underpayment, plus (iii) an amount necessary to reimburse Executive for any income, excise or other tax or assessment payable by Executive with respect to the amounts specified in (i) and (ii) above, and the reimbursement provided by this clause (iii). Payment thereof shall be made within five (5) business days after the date upon which such subsequent determination is made.
  - (vi) In addition to the benefits described above, Executive shall be entitled to all rights derived under the Big Lots, Inc. 1996 Performance Incentive Plan, as Amended (f/k/a Consolidated Stores Corporation 1996 Performance Incentive Plan, as Amended) in the event of a "Change in Effective Control" (as defined in that plan).
  - (b) Change in Control Defined. As used herein, "Change in Control" means any of the following events:
    - (i) Any person or group (as defined for purposes of Section 13(d) of the Securities Exchange Act of 1934) becomes the beneficial owner of, or has the right to acquire (by contract, option, warrant, conversion of convertible securities or otherwise),
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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
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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
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time, for the period between the date on which such payment is due and the date said amount is paid.

- (f) No Right of Setoff. Employer's obligation to pay Executive the compensation and to make the arrangement required in this Paragraph 8 shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, any setoff, counterclaim, recoupment, defense or other right that Employer may have against Executive or otherwise. All amounts payable by Employer hereunder shall be paid without notice or demand. Subject to the proviso in this Paragraph 8, each and every payment made hereunder by Employer shall be final and Employer shall not seek to recover all or any part of such payment from Executive or from whosoever may be entitled thereto, for any reason whatsoever. Executive shall not be obligated to seek other employment or compensation or insurance in mitigation of any amount payable or arrangement made under this Paragraph 8, and the obtaining of any such other employment or compensation or insurance, except as otherwise provided in this Agreement, shall in no event effect any reduction of Employer's obligations to make the payments and arrangements required under this Paragraph 8.

#### **9. COVENANTS OF EXECUTIVE.**

- (a) Covenants. Executive acknowledges that the principal businesses of Employer include the operation of its "Big Lots" discount general merchandise consumer goods retail outlets, the inventories of which are acquired primarily through special purchase situations such as overstocks, closeouts, liquidations, bankruptcies, wholesale distribution of overstocked, distressed, or liquidated 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
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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) 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.
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- (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
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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:

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|-----------------------------|---|
| (a) If to the Employer to:  | Big Lots Stores, Inc.<br>300 Phillipi Road<br>Columbus, Ohio 43228-1310<br>Attention: General Counsel         |
| With a copy to:             | Big Lots Stores, Inc.<br>300 Phillipi Road<br>Columbus, Ohio 43228-1310<br>Attention: Chief Executive Officer |
| (b) If to the Executive to: | Norman J. Rankin<br>6664 Bantry Court<br>Dublin, Ohio 43016   |
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- (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.**

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

17. **HEADINGS.**

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

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

19. **GOVERNING LAW, JURISDICTION AND ARBITRATION.**

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

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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 14<sup>th</sup> day of December, 2004.

Big Lots, Inc.

Executive

/s/ Michael J. Potter

/s/ Norman J. Rankin

By: Michael J. Potter

Printed Name: Norman J. Rankin

Its: Chief Executive Officer

Big Lots Stores, Inc.

/s/ Brad A. Waite

By: Brad A. Waite

Its: Executive Vice President

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

I, Steven S. Fishman, certify that:

1. I have reviewed this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 7, 2006

By: /s/ Steven S. Fishman

Steven S. Fishman

*Chairman of the Board, Chief Executive Officer and  
President*

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

I, Joe R. Cooper, certify that:

1. I have reviewed this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 7, 2006

By: /s/ Joe R. Cooper

Joe R. Cooper  
*Senior Vice President and  
Chief Financial Officer*

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

This certification is provided pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and accompanies the quarterly report on Form 10-Q (the "Report") for the quarter ended April 29, 2006, of Big Lots, Inc. (the "Company"). I, Steven S. Fishman, Chairman of the Board, Chief Executive Officer and President of the Company, certify that:

- (i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 7, 2006

By: /s/ Steven S. Fishman

Steven S. Fishman

*Chairman of the Board, Chief Executive Officer and  
President*

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

This certification is provided pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and accompanies the quarterly report on Form 10-Q (the "Report") for the quarter ended April 29, 2006, of Big Lots, Inc. (the "Company"). I, Joe R. Cooper, Senior Vice President and Chief Financial Officer of the Company, certify that:

- (i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 7, 2006

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