

BIG LOTS INC  
Form DEF 14A  
April 19, 2006

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE  
COMMISSION**  
Washington, D.C. 20549  
**SCHEDULE 14A**

OMB APPROVAL  
OMB Number: 3235-0059

Expires: January 31, 2008  
Estimated average burden  
hours per response... 14

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No.     )**

Filed by the Registrant   **x**  
Filed by a Party other than the Registrant   **o**

Check the appropriate box:

- o** Preliminary Proxy Statement
- o** **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x** Definitive Proxy Statement
- o** Definitive Additional Materials
- o** Soliciting Material Pursuant to Rule §240.14a-12

**Big Lots, Incorporated**

---

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x** No fee required.
- o** Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

---

2. Aggregate number of securities to which transaction applies:

---

Edgar Filing: BIG LOTS INC - Form DEF 14A

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

4. Proposed maximum aggregate value of transaction:

---

5. Total fee paid:

---

SEC 1913 (04-05)

**Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

---

2. Form, Schedule or Registration Statement No.:

---

3. Filing Party:

---

4. Date Filed:

---

---

---

Big Lots, Inc.  
300 Phillipi Road  
Columbus, Ohio 43228

April 19, 2006

Edgar Filing: BIG LOTS INC - Form DEF 14A

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Big Lots, Inc., which will be held at the Company's corporate office located at 300 Phillipi Road, Columbus, Ohio, on Thursday, May 25, 2006, beginning at 9:00 a.m. EDT.

The following pages contain the formal Notice of Annual Meeting of Shareholders and the Proxy Statement. You should review this material for information concerning the business to be conducted at the Annual Meeting of Shareholders.

Your vote is important. Whether or not you plan to attend the Annual Meeting of Shareholders, you are urged to complete, date and sign the enclosed proxy card and return it in the enclosed envelope. If you attend the Annual Meeting of Shareholders, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy.

On behalf of the Board of Directors, we would like to express our appreciation for your continued interest in the affairs of the Company.

STEVEN S. FISHMAN  
*Chairman,  
Chief Executive Officer and President*

---

Big Lots, Inc.  
300 Phillipi Road  
Columbus, Ohio 43228

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 25, 2006**

Notice is hereby given that the Annual Meeting of Shareholders of Big Lots, Inc. will be held at the Company's corporate office located at 300 Phillipi Road, Columbus, Ohio, on Thursday, May 25, 2006, beginning at 9:00 a.m. EDT. At the meeting, the holders of the Company's outstanding common shares will act on the following matters:

1. The election of nine directors of the Company;
2. The approval of the Big Lots 2006 Bonus Plan, in the form attached hereto as Appendix I; and
3. The transaction of such other business as may properly come before the meeting.

Only shareholders of record at the close of business on March 27, 2006, are entitled to notice of and to vote at the Annual Meeting of Shareholders and any postponements or adjournment thereof.

By Order of the Board of Directors,

CHARLES W. HAUBIEL II  
*Senior Vice President, General Counsel  
and Corporate Secretary*

April 19, 2006  
Columbus, Ohio

Your vote is important. Shareholders are urged to complete, date and sign the enclosed proxy card and return it in the enclosed envelope to which no postage need be affixed if mailed in the United States. If you attend the Annual Meeting of Shareholders, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy.

**BIG LOTS, INC.**

**PROXY STATEMENT**

**TABLE OF CONTENTS**

<b>ABOUT THE ANNUAL MEETING</b>	1
<b>Purpose of the Annual Meeting</b>	1
<b>Shareholder Voting Rights</b>	1
<b>Registered Shareholders and Beneficial Shareholders</b>	1
<b>Attendance at the Annual Meeting</b>	2
<b>How to Vote</b>	2
<b>Householding</b>	2
<b>Electronic Delivery of Proxy Materials and Annual Report</b>	2
<b>Tabulation of the Votes</b>	3
<b>Board's Recommendation</b>	3
<b>Vote Required to Approve a Proposal</b>	3
<i>Proposal One</i>	3
<i>Other Matters</i>	3
<b>Quorum</b>	3
<b>PROPOSAL ONE: ELECTION OF DIRECTORS</b>	4
<b>GOVERNANCE OF THE COMPANY</b>	5
<b>Current Members of the Board of Directors</b>	5
<b>Board Meetings in Fiscal 2005</b>	5
<b>Role of the Board's Committees</b>	5
<i>Audit Committee</i>	5
<i>Compensation Committee</i>	6
<i>Nominating/Corporate Governance Committee</i>	6
<i>Search Committee</i>	6
<b>Presiding Member of the Board</b>	6
<b>Determination of Director Independence</b>	6
<b>Other Directorships</b>	7
<b>Selection of Nominees by the Board</b>	7
<b>Director Compensation</b>	8
<i>Retainers and Fees</i>	8
<i>Stock Options</i>	9
<b>Code of Business Conduct and Ethics &amp; Code of Ethics for Financial Professionals</b>	10
<b>Shareholder Communications to the Board</b>	10

<b>STOCK OWNERSHIP</b>	10
<b>Ownership of Company Stock by Certain Beneficial Owners and Management</b>	10

<b>Section 16(a) Beneficial Ownership Reporting Compliance</b>	12
<b>AUDIT COMMITTEE REPORT</b>	13
<b>COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION</b>	15
Committee Meetings	15
Compensation Philosophy	15
Executive Compensation Practices	16
Executive Compensation Components	16
<i>Salary</i>	17
<i>Bonus</i>	17
<i>Equity</i>	17
<i>Benefits/Perquisites</i>	18
Comprehensive Review Process	19
Internal Pay Equity	20
Compensation for the Chief Executive Officer in Fiscal 2005	20
<i>CEO Salary</i>	20
<i>CEO Bonus</i>	21
<i>CEO Equity</i>	21
Compensation for Other Executives in Fiscal 2005	21
<i>Non-CEO Salary</i>	21
<i>Non-CEO Bonus</i>	22
<i>Non-CEO Equity</i>	22
Deductibility of Annual Compensation over \$1 Million	22
Summary	23
<b>EXECUTIVE COMPENSATION</b>	23
Employment Agreements	23
Executive Change in Control Severance Agreements	24
Summary Compensation Table	25
Option Grants During Fiscal 2005	27
Option Exercises During Fiscal 2005 and Fiscal Year End Option Values	27
Comparison of Five Year Total Shareholder Return	28
Retirement Plans	28
<i>Pension Plan</i>	28
<i>Supplemental Pension Plan</i>	29
<i>Savings Plan</i>	29
<i>Supplemental Savings Plan</i>	30
Employee Equity Compensation	30
Equity Compensation Plan Information	31
ii	
<hr/>	
Executive Benefit Plan	32
<b>PROPOSAL TWO: APPROVAL OF THE BIG LOTS 2006 BONUS PLAN</b>	32
Introduction	32
Purpose	32
Administration and Description of Bonus Awards	32
Eligibility	33
Amendment, Suspension or Termination	33
Plan Benefits	34
<b>INDEPENDENT AUDITORS</b>	34
<b>SHAREHOLDER PROPOSALS</b>	34
<b>ANNUAL REPORT ON FORM 10-K</b>	34

<b>PROXY SOLICITATION COSTS</b>	34
<b>OTHER MATTERS</b>	35
<b>BIG LOTS 2006 BONUS PLAN</b>	Appendix I
<b>BIG LOTS, INC. AMENDED AND RESTATED AUDIT COMMITTEE CHARTER</b>	Appendix II

Big Lots, Inc.  
300 Phillipi Road  
Columbus, Ohio 43228

---

**PROXY STATEMENT**

---

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the **Board**) of Big Lots, Inc., an Ohio corporation (the **Company**), for use at the Annual Meeting of Shareholders (the **Annual Meeting**) to be held on May 25, 2006, at the Company's corporate office located at 300 Phillipi Road, Columbus, Ohio. The Notice of Annual Meeting of Shareholders, this Proxy Statement and the accompanying proxy card, together with the Company's Annual Report to Shareholders for the fiscal year ended January 28, 2006 ( **fiscal 2005** ), are first being mailed to shareholders on or about April 19, 2006.

**ABOUT THE ANNUAL MEETING**

**Purpose of the Annual Meeting**

At the Annual Meeting, shareholders will act upon the matters outlined in the Notice of Annual Meeting included with this Proxy Statement. Specifically, the shareholders will be asked to elect the Company's directors, approve the Big Lots 2006 Bonus Plan (the **2006 Bonus Plan**), and transact such other business as may properly come before the Annual Meeting. In addition, management will report on the performance of the Company.

**Shareholder Voting Rights**

Only those shareholders of record at the close of business on March 27, 2006, the record date for the Annual Meeting, are entitled to receive notice of and to vote at the Annual Meeting. At the record date, the Company had outstanding 113,759,701 common shares, \$.01 par value per share. Each of the outstanding common shares is entitled to one vote on each matter voted upon at the Annual Meeting, or any postponement or adjournment thereof. The holders of common shares have no cumulative voting rights in the election of directors. All voting shall be governed by the Code of Regulations of the Company and the General Corporation Law of the State of Ohio.

**Registered Shareholders and Beneficial Shareholders**

If your common shares are registered in your name directly with the Company's transfer agent, National City Bank, you are considered, with respect to those common shares, a registered shareholder. The Notice of Annual Meeting of Shareholders, Proxy Statement, proxy card, and 2005 Annual Report to Shareholders have been sent directly to registered shareholders by the Company.

If your common shares are held in a brokerage account or by a bank or other holder of record, you are considered the beneficial owner of common shares held in street name. The Notice of Annual Meeting of Shareholders, Proxy Statement, proxy card, and 2005 Annual Report to Shareholders have been forwarded to you by your broker, bank or other holder of record who is considered, with respect to those common

shares, the registered shareholder. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote your common shares by using the voting instruction card included in the mailing or by following their instructions for voting electronically.

- 1 -

---

### **Attendance at the Annual Meeting**

All shareholders as of the record date, or their duly appointed proxies, may attend the Annual Meeting. Registration and seating will begin at 8:30 a.m. EDT, and the Annual Meeting will begin at 9:00 a.m. EDT. If you attend, please note that you may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting. Please also note that if you hold your common shares as a beneficial shareholder, you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the Annual Meeting.

### **How to Vote**

You may vote by completing, dating and signing the accompanying proxy card and returning it in the enclosed envelope. You may also vote online at [www.proxyvote.com](http://www.proxyvote.com) until May 24, 2006 at 11:59 p.m. EDT. If you wish to vote online, you will need your proxy card and must follow the instructions posted on the website. If you complete, date, sign and return your proxy card or you properly complete your proxy via the Internet, your shares will be voted as you direct.

If you are a registered shareholder and attend the Annual Meeting, you may deliver your completed proxy card in person. Beneficial shareholders who wish to vote at the Annual Meeting will need to obtain a proxy form from the broker or other nominee that is the registered holder of the common shares. Additionally, beneficial shareholders may be able to instruct the broker or other nominee how to vote by telephone or electronically, so please contact your broker or other nominee to determine availability and applicable deadlines.

A proxy may be revoked at any time before it is exercised by filing with the Secretary of the Company a notice of revocation or a duly executed proxy bearing a later date. A proxy may also be revoked by attending the Annual Meeting and giving notice of revocation to the Secretary of the meeting, either in writing or in open meeting. Attendance at the Annual Meeting will not by itself revoke a previously granted proxy.

### **Householding**

The Securities and Exchange Commission (SEC) has enacted a regulation that allows multiple shareholders residing at the same address the convenience of receiving a single copy of annual reports, proxy statements, notices of shareholder meetings, and other documents if they consent to do so. Please note that if you do not respond to the householding election, householding will begin 60 days after the mailing of the Proxy Statement. Householding will be permitted only upon certain conditions, including where you agree to or do not object to the householding of your materials and you have the same last name and address as another shareholder. If these conditions are met, and SEC regulations allow, your household will receive a single copy of annual reports, proxy statements, notices of shareholder meetings, and other documents.

The householding election that appears on the enclosed proxy card provides a means for you to notify us whether or not you consent to householding. By marking "yes" in the box provided, you will consent to householding. By marking "no" in the box provided, you withhold your consent to participation. If you do nothing, you will be deemed to have given your consent to householding. Your consent to householding will be perpetual unless you revoke it. You may revoke your consent at any time by contacting Automatic Data Processing, Inc. (ADP), either by calling 1-800-542-1061, or by writing to: ADP-ICS, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. You will be removed from the householding program within 30 days of receipt of your response, following which you will receive an individual copy of our disclosure document.

Beneficial owners can request more information about householding from their banks, brokers or other holders of record.

### **Electronic Delivery of Proxy Materials and Annual Report**

In lieu of receiving paper copies of next year's proxy materials and annual report in the mail, shareholders may elect to receive these documents electronically via e-mail or the Internet. By opting to access these documents electronically, you will save the Company the cost of producing and mailing documents to you,

- 2 -

---

reduce the amount of mail you receive, and help preserve environmental resources. To enroll in the electronic delivery service for future annual meetings, use your proxy card information to register online at [www.proxyvote.com](http://www.proxyvote.com) by indicating that you agree to receive or access shareholder communications electronically in future years.

#### **Tabulation of the Votes**

Tabulation of the votes cast at the Annual Meeting will be performed by ADP, as inspected by duly appointed officers of the Company.

#### **Board's Recommendation**

Unless you give other instructions on your proxy card (excluding broker non-votes), the persons named as proxy holders on the proxy card will vote the common shares in accordance with the recommendations of the Board. The Board's recommendation is set forth together with the description of each proposal in this Proxy Statement. In summary, the Board recommends a vote FOR election of the nominated slate of directors (see Proposal One), and FOR the approval of the 2006 Bonus Plan (see Proposal Two). If any other matter properly comes before the Annual Meeting, or if a director nominee named in the Proxy Statement is unable to serve or for good cause will not serve, the proxy holders will vote on such matter or for such substitute nominee as recommended by the Board.

#### **Vote Required to Approve a Proposal**

##### ***Proposal One***

For purposes of Proposal One, the nine director nominees receiving the greatest number of votes cast shall be elected. A properly executed proxy marked *withhold authority* with respect to the election of one or more nominees for director will not be voted with respect to the nominee or nominees for director indicated, although it will be counted for purposes of determining whether there is a quorum. If you are a beneficial shareholder, your broker or other nominee that is the registered holder of your common shares is permitted to vote your shares for the election of directors even if the broker or other nominee does not receive voting instructions from you.

##### ***Other Matters***

For purposes of Proposal Two and any other matters that may properly come before the Annual Meeting, the affirmative vote of the holders of a majority of the common shares represented in person or by proxy and entitled to vote on each such matter will be required for approval. A properly executed proxy marked *abstain* with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote. If no voting instructions are given (excluding broker non-votes), the persons named as proxy holders on the proxy card will vote the common shares in accordance with the recommendations of the Board.

If you are a beneficial shareholder, your broker or other nominee may not be permitted to exercise discretionary voting power with respect to some of the matters to be acted upon. Thus, if you do not give your broker or other nominee specific voting instructions, your common shares may not be voted on those matters and will not be counted in determining the number of common shares necessary for approval. Common shares represented by such *broker non-votes* will, however, be counted in determining whether there is a quorum.

#### **Quorum**

The presence, in person or by proxy, of the holders of a majority of the outstanding common shares entitled to vote at the Annual Meeting will constitute a quorum, permitting the Company to conduct its business at the Annual Meeting. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of votes considered to be present at the Annual Meeting for purposes of establishing a quorum.



## Edgar Filing: BIG LOTS INC - Form DEF 14A

At the Annual Meeting, the common shares of the Company represented by proxies will be voted, unless otherwise specified, for the election of the nine director nominees named below. All nine nominees are currently directors of the Company. Proxies cannot be voted at the Annual Meeting for more than nine persons.

Set forth below is certain information relating to the nominees for election as directors. Directors are elected to serve until the next annual meeting of shareholders and until their respective successors are elected and qualified, or until their earlier death, resignation or removal.

Name	Age	Principal Occupation for the Past Five Years	Director Since
Sheldon M. Berman	65	Chairman, Chief Executive Officer and President, Xtream Creative, Inc. (business planning, marketing planning, and advertising services).	1994
Steven S. Fishman	54	Chairman, Chief Executive Officer and President of the Company; former President, Chief Executive Officer and Chief Restructuring Officer, Rhodes, Inc. (furniture retailer) Rhodes, Inc. filed for bankruptcy on November 4, 2004; former Chairman and Chief Executive Officer, Frank's Nursery & Crafts, Inc. (lawn and garden specialty retailer) Frank's Nursery & Crafts, Inc. filed for bankruptcy on September 8, 2004; former President and Founder, SSF Resources, Inc. (investment and consulting).	2005
David T. Kollat	67	President and Founder, 22, Inc. (research and management consulting).	1990
Brenda J. Lauderback	55	Former President Wholesale Group, Nine West Group, Inc. (retail and wholesale footwear); former President Footwear Wholesale, U.S. Shoe Corporation (retail and wholesale footwear); former Vice President, General Merchandise Manager, Dayton Hudson Corporation (retail stores).	1997
Philip E. Mallott	48	Independent financial consultant; retail stock analyst, Coker & Palmer (securities brokerage services); former Vice President and Chief Financial Officer, Intimate Brands, Inc. (retail stores).	2003
Ned Mansour	57	Former President, Mattel, Inc. (designer, manufacturer and marketer of toy products).	2003
Russell Solt	58	Director of Investor Relations, West Marine, Inc. (specialty retailer and catalog company); former Executive Vice President and Chief Financial Officer, West Marine, Inc.; former Senior Vice President and Chief Financial Officer, West Marine, Inc.; former President, Venture Stores (discount retailer).	2003
James R. Tener	56	President and Chief Operating Officer, Brook Mays Music Group (retail and wholesale music); former Chief Operating Officer, The Sports Authority (sporting goods retailer).	2005
Dennis B. Tishkoff	62	Chairman and Chief Executive Officer, Drew Shoe Corporation (manufacture, import and export, retail and wholesale footwear); President, Tishkoff and Associates, Inc. (retail consultant); former President and Chief Executive Officer, Shoe Corporation of America (retail footwear).	1991

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE NOMINEES LISTED ABOVE.**

- 4 -

### GOVERNANCE OF THE COMPANY

#### Current Members of the Board of Directors

The members of the Board as of the date of this Proxy Statement, and the committees of the Board on which they serve, are identified below. The Board has standing Audit, Compensation, and Nominating/Corporate Governance Committees. During fiscal 2005, the Board used an ad hoc Search Committee to assist the Board in identifying a new Chief Executive Officer ( CEO ). All committees report on their activities to the Board.

Director	Audit Committee	Compensation Committee	Nominating/ Corporate Governance Committee	Search Committee

<u>Director</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Nominating/ Corporate Governance Committee</u>	<u>Search Committee</u>
Sheldon M. Berman			*	
Steven S. Fishman				
David T. Kollat		**	*	**
Brenda J. Lauderback		*		*
Philip E. Mallott	**			*
Ned Mansour			**	
Russell Solt	*			
James R. Tener	*			
Dennis B. Tishkoff		*		*

\* Committee Member

\*\* Committee Chair

### Board Meetings in Fiscal 2005

Nine meetings of the Board were held during fiscal 2005. During the period for which he or she was a director in fiscal 2005, each director attended at least 75% of all meetings of the Board and the committees on which he or she served. Absent extenuating circumstances, it is the policy of the Company that each nominee standing for election be present at the Company's Annual Meeting of Shareholders. Each director listed above attended the Company's most recent Annual Meeting of Shareholders held in May 2005, except for Mr. Fishman who did not become a director until July 11, 2005. Under the Company's Corporate Governance Guidelines (the "Guidelines"), each director is expected to dedicate sufficient time and attention to ensure the diligent performance of his or her duties, including by attending meetings of the shareholders of the Company, the Board, and the committees of which he or she is a member.

### Role of the Board's Committees

#### *Audit Committee*

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibility with respect to the integrity of the financial reports and other financial information provided by the Company to its shareholders and others; the Company's compliance with legal and regulatory requirements; the engagement of the independent auditor and the evaluation of the independent auditor's qualifications, independence and performance; the performance of the Company's system of internal controls; and the Company's audit, accounting and financial reporting processes generally. All members of the Audit Committee are independent as required by the Audit Committee's charter and by the applicable New York Stock Exchange ( "NYSE" ) and SEC rules. Philip E. Mallott and Russell Solt serve as the Audit Committee's financial experts, and the Board has determined that both satisfy the standards for "audit committee financial expert" as required by the SEC under the Sarbanes-Oxley Act of 2002. Each member of the Audit Committee is "financially literate," as required by the NYSE rules.

The functions of the Audit Committee are further described in its charter and in the Audit Committee Report found later in this Proxy Statement. The charter of the Audit Committee is included as Appendix II to this

Proxy Statement and is available on the Company's website at [www.biglots.com](http://www.biglots.com) under the "Investor Relations" "Governance" caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Audit Committee met twelve times during fiscal 2005.

### ***Compensation Committee***

The Compensation Committee discharges the responsibilities of the Board relating to the administration of the Company's compensation programs. The Compensation Committee is involved in establishing the Company's general compensation philosophy, reviewing and approving executive compensation, and overseeing the development and implementation of compensation programs. All members of the Compensation Committee are independent as required by the Committee's charter and the NYSE rules.

The functions of the Compensation Committee are further described in its charter and in the Compensation Committee Report on Executive Compensation found later in this Proxy Statement. The charter of the Compensation Committee is available on the Company's website at [www.biglots.com](http://www.biglots.com) under the Investor Relations Governance caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Compensation Committee met four times during fiscal 2005.

### ***Nominating/Corporate Governance Committee***

The Nominating/Corporate Governance Committee is responsible for recommending individuals to the Board for nomination as members of the Board and its committees and taking a leadership role in shaping the Company's corporate governance policies and practices, including recommending to the Board the Guidelines applicable to the Company and monitoring Company compliance with the same. All members of the Nominating/Corporate Governance Committee are independent as required by the Committee's charter and the NYSE rules. The functions of the Nominating/Corporate Governance Committee are further described in its charter, which is available on the Company's website at [www.biglots.com](http://www.biglots.com) under the Investor Relations Governance caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Nominating/Corporate Governance Committee met twice during fiscal 2005.

### ***Search Committee***

In January 2005, the Board formed an ad hoc Search Committee for the purpose of identifying a new CEO to replace Michael J. Potter. The Search Committee was assisted in its recruitment efforts by an independent executive search firm that provides research and other pertinent information regarding potential candidates. In conducting its search, the Search Committee reviewed the candidates' skill set and experience as it related to the needs of the Company. As the result of its efforts, the Search Committee recommended Mr. Fishman to the Board for its consideration as the new CEO. Following Mr. Fishman's appointment as the Company's CEO in July 2005, the Search Committee was disbanded. The members of the Search Committee met individually with several candidates and met as a group once in fiscal 2005.

### ***Presiding Member of the Board***

The Board has a presiding director whose primary responsibility is to preside over periodic executive sessions of the Board in which management directors and other members of management are not present. The role of presiding director is rotated among the non-management members of the Board. The presiding director is responsible for establishing an agenda for the session over which he or she presides and, upon the conclusion of an executive session of the Board, meets with the Company's CEO and addresses any issues raised during the executive session.

### ***Determination of Director Independence***

In November 2005, the Board revised the Guidelines, which were initially adopted in August 2003. The Guidelines adopted by the Board comply with the NYSE rules. The Guidelines can be found on the Company's website at [www.biglots.com](http://www.biglots.com) under the Investor Relations Governance caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary.

- 6 -

---

Pursuant to the Guidelines, the Board undertook its most recent annual review of director independence in February 2006. During this review, the Board considered transactions and relationships between each director, his or her affiliates, and any member of his or her immediate family and the Company, its subsidiaries, and members of senior management. The purpose of this review was to determine whether any such transactions or relationships were inconsistent with a determination that the director is independent. In determining under the NYSE rules whether any director has a material relationship with the Company (either directly or as a partner, shareholder or officer of another entity) aside from his or her service as a director of the Company, the Board considered the following factors:

whether the director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer, of the Company;

whether the director has received, or an immediate family member has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service for which such compensation is not contingent in any way on continued service to the Company;

whether the director or an immediate family member is a partner or employee of a firm that is the Company's internal or external auditor, whether the director's immediate family member who is a current employee of such a firm participates in the firm's audit, assurance or tax compliance practice, or whether the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time;

whether the director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee; and

whether the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

As a result of this review, the Board affirmatively determined that all of the directors nominated for election at the Annual Meeting, with the exception of Mr. Fishman, are independent of the Company and its management under the standards set forth by the NYSE rules and none of them have a material relationship with the Company aside from his/her service as a director of the Company. Mr. Fishman is considered a non-independent inside director due to his employment as the Company's CEO.

#### **Other Directorships**

Mr. Kollat is a director of Limited Brands, Inc., Select Comfort Corporation, and Wolverine Worldwide, Inc. Mr. Kollat serves on the finance committee at Limited Brands, Inc., the audit committee at Select Comfort Corporation, and the governance and audit committees at Wolverine Worldwide, Inc., where he is the chair of the audit committee. Ms. Lauderback is a director of Select Comfort Corporation, Irwin Financial Corporation, Wolverine Worldwide, Inc. and Denny's Corporation. Ms. Lauderback is a member of the audit committee at Wolverine Worldwide, Inc., and serves on both the audit and compensation committees at Irwin Financial Corporation. Mr. Mallott is a director of Too, Inc., where he also serves as the chair of the audit committee. Mr. Mansour is a director of The Ryland Group, where he is a member of the audit committee. Mr. Tener is a director of Edwin Watts Golf. Mr. Tishkoff is a director of Drew Shoe Corporation.

#### **Selection of Nominees by the Board**

The Nominating/Corporate Governance Committee has oversight over a broad range of issues surrounding the composition and operation of the Board. The Nominating/Corporate Governance Committee is responsible for recommending to the Board the appropriate skills and qualifications required of Board members, based on the

- 7 -

---

needs of the Company from time to time. The Nominating/Corporate Governance Committee also evaluates prospective nominees against the standards and qualifications set forth in the Company's Corporate Governance Guidelines. Although the Nominating/Corporate Governance Committee has not approved any specific minimum qualifications that must be met by a nominee for director recommended by the Committee, the Committee does consider factors such as the prospective nominee's relevant experience, character, intelligence, independence, commitment, judgment, prominence, diversity, age, and compatibility with the Company's CEO and other members of the Board. The Nominating/Corporate Governance Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, and the need for committee expertise. The Nominating/Corporate Governance Committee confers with the full Board as to the criteria it intends to apply before the search for a new director nominee is commenced.

In identifying potential candidates for Board membership, the Nominating/Corporate Governance Committee considers recommendations from the Board, shareholders, and management. A shareholder who wishes to recommend a prospective nominee to the Board must send written notice to: Chair of the Nominating/Corporate Governance Committee, 300 Phillipi Road, Columbus, Ohio 43228. The written notice shall

## Edgar Filing: BIG LOTS INC - Form DEF 14A

include the prospective nominee's name, age, business address, principal occupation, beneficial ownership of the Company's common shares, information that would be required under the rules of the SEC in a proxy statement soliciting proxies for the election of such prospective nominee as a director, and any other information that is deemed relevant by the recommending shareholder. Shareholder recommendations that comply with these procedures and that meet the factors outlined above will receive the same consideration that the recommendations of the Board and management receive.

Pursuant to its written charter, the Nominating/Corporate Governance Committee also has the authority to retain consultants and search firms to assist in the process of identifying and evaluating candidates and to approve the fees and other retention terms for any such consultant or search firm. In fiscal 2005, an outside search firm was retained to assist in identifying and evaluating prospective Board members, including in connection with the search for a new CEO.

After completing the evaluation of a prospective nominee, the Nominating/Corporate Governance Committee may make a recommendation to the full Board that the targeted individual be nominated by the Board, and the Board shall decide whether to approve a nominee after considering the recommendation and report of the Committee. Any invitation to join the Board will be extended through the chair of the Nominating/Corporate Governance Committee and the Company's CEO, after approval by the full Board.

### Director Compensation

#### *Retainers and Fees*

Pursuant to arrangements with the Company, each director who is not an officer of the Company and who is not involved in the daily affairs of managing the Company (outside director) is compensated for Board and committee participation. The retainers and fees for outside directors in fiscal 2005 consisted of: an annual retainer of \$36,000; an additional annual retainer of \$4,000 for the chair of the Audit Committee; an additional annual retainer of \$2,000 for the chair of each of the Board's other committees; \$1,500 for each Board meeting attended in person; \$1,000 for each committee meeting attended in person; \$500 for each Board or committee meeting attended telephonically; and the ability to have the Company consider making a donation of up to \$10,000 annually to a charity recommended by the director. During fiscal 2005, the chair of the Search Committee also received a one-time retainer of \$15,000 and each other member of the Search Committee received a one-time retainer of \$10,000. During fiscal 2005, eight directors, Messrs. Berman, Kollat, Mallott, Mansour, Solt, Tener and Tishkoff, and Ms. Lauderback, qualified as outside directors and, thus, were parties to such arrangements. The following table summarizes the retainers and fees earned in fiscal 2005 by each director standing for election.

- 8 -

Director	Board Retainer	Board Meeting Fees	Committee Retainer	Committee Meeting Fees	Total
Sheldon M. Berman	\$ 36,000	\$ 11,000	\$ 0	\$ 2,000	\$ 49,000
David T. Kollat	\$ 36,000	\$ 11,500	\$ 17,000	\$ 6,500	\$ 71,000
Brenda J. Lauderback	\$ 36,000	\$ 10,500	\$ 10,000	\$ 5,500	\$ 62,000
Philip E. Mallott	\$ 36,000	\$ 11,500	\$ 14,000	\$ 13,000	\$ 74,500
Ned Mansour	\$ 36,000	\$ 8,000	\$ 2,000	\$ 1,500	\$ 47,500
Russell Solt	\$ 36,000	\$ 11,000	\$ 0	\$ 10,000	\$ 57,000
James R. Tener	\$ 36,000	\$ 10,000	\$ 0	\$ 6,000	\$ 52,000
Dennis B. Tishkoff	\$ 36,000	\$ 11,500	\$ 10,000	\$ 4,500	\$ 62,000

#### *Stock Options*

In addition to the retainers and fees, outside directors receive an annual stock option grant under the Big Lots Director Stock Option Plan (the Director Stock Option Plan). During fiscal 2005, each of the eight outside directors received an option to acquire 10,000 common shares of the Company pursuant to the Director Stock Option Plan. The number of common shares available under the Director Stock Option Plan initially consisted of the original allocation of 500,000 common shares (781,250 shares as adjusted to account for the five for four stock splits which occurred in December 1996 and June 1997).

## Edgar Filing: BIG LOTS INC - Form DEF 14A

The Director Stock Option Plan is administered by the Compensation Committee. Neither the Board nor the Compensation Committee exercise any discretion in administering the Director Stock Option Plan, and the administration performed by the Compensation Committee is ministerial in nature. The formula which governs the grant of stock options to eligible participants may be amended by the Board, but not more frequently than once in any six month period. Under the current formula, each outside director is granted annually an option to acquire 10,000 of the Company's common shares, for an exercise price equal to the fair market value on the date of grant. Each annual grant occurs on the last day of the quarterly trading period next following the Annual Meeting.

Stock options granted under the Director Stock Option Plan become exercisable over three years beginning upon the first anniversary of the grant date, whereby the stock option becomes exercisable for 20% of the shares on the first anniversary, 60% on the second anniversary, and 100% on the third anniversary. Stock options automatically terminate 10 years and one month following the date of grant. An optionee may dispose of the common shares underlying a stock option only during specific quarterly trading periods. Stock options granted under the Director Stock Option Plan are not transferable other than by will or the laws of descent and distribution.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), which requires an entity to measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. On November 21, 2005, the Company announced that the Compensation Committee, after discussion with the Board, approved accelerating the vesting of stock options awarded on or before February 21, 2005, under the Director Stock Option Plan and the Big Lots, Inc. 1996 Performance Incentive Plan, as amended (the 1996 Incentive Plan). The Committee did not, however, accelerate the vesting of stock options granted after February 21, 2005, including those granted to the outside directors in fiscal 2005 or the stock options previously awarded to the Company's former CEO. Additionally, the Committee imposed a holding period that requires all directors, executive vice presidents, and senior vice presidents (including the Company's named executive officers other than Messrs. Fishman and Potter, whose options were not accelerated) to refrain from selling net shares acquired upon any exercise of these accelerated options, until the date on which the exercise would have been permitted under the options' original vesting terms or, if earlier, the executive officer's death, disability or termination of employment. In addition to the perceived positive effect on associate morale and retention, the decision to accelerate vesting of stock options was made primarily to reduce non-cash compensation expense that would have been recorded following the adoption of SFAS No. 123(R) in the first quarter of fiscal 2006.

- 9 -

---

### Code of Business Conduct and Ethics & Code of Ethics for Financial Professionals

The Company has a Code of Business Conduct and Ethics, which is applicable to all of the Company's associates, including the directors, the principal executive officer, the principal financial officer and the principal accounting officer. The Company has a separate Code of Ethics for Financial Professionals which is applicable to its CEO, Chief Administrative Officer, and all other Senior Financial Officers (as that term is defined therein). Both the Code of Business Conduct and Ethics and the Code of Ethics for Financial Professionals are available on the Company's website at [www.biglots.com](http://www.biglots.com) under the Investor Relations Governance caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Company intends to post amendments to or waivers from its Code of Business Conduct and Ethics (to the extent applicable to the Company's directors and executive officers) or to the Code of Ethics for Financial Professionals at this location on its website.

### Shareholder Communications to the Board

Shareholders and other parties interested in communicating directly with the Board or with the outside directors as a group may do so by choosing one of the following options:

*Call the Board at:* (866) 834-7325

*Write to the Board at:* Big Lots Board of Directors, 300 Phillipi Road, Columbus, Ohio 43228-5311

*E-mail the Board at:* [www.ci-wackenhut.com/getreal.htm](http://www.ci-wackenhut.com/getreal.htm)

Under a process approved by the Nominating/Corporate Governance Committee for handling correspondence received by the Company and addressed to outside directors, the Office of the General Counsel of the Company reviews all such correspondence and forwards to the Board or applicable members of the Board a summary and/or copies of any such correspondence that, in the opinion of the General Counsel, deals with the functions of the Board or committees thereof or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is directed to members of the Board and request copies of any such correspondence. Concerns relating to the Company's accounting, internal accounting controls or auditing matters will be referred to members of the Audit

## Edgar Filing: BIG LOTS INC - Form DEF 14A

Committee. Concerns relating to the Board or members of senior management will be referred to the members of the Nominating/Corporate Governance Committee. Those parties sending written communications to the Board will receive a written acknowledgement upon the Company's receipt of the communication. Parties submitting communications to the Board may choose to do so anonymously or confidentially.

### STOCK OWNERSHIP

#### Ownership of Company Stock by Certain Beneficial Owners and Management

The following table sets forth certain information with regard to the beneficial ownership of the common shares of the Company by each holder of more than 5% of such common shares, each director, each of the executive officers named in the Summary Compensation Table, and all executive officers and directors of the Company as a group. The assessment of holders of more than 5% of the Company's common shares is based on a review of and reliance upon filings with the SEC. Except as otherwise indicated, all information is as of March 27, 2006.

- 10 -

Name of Beneficial Owner or Identity of Group	Amount and Nature of Beneficial Ownership(9)(10)	Percent of Outstanding Common Shares
Lisa M. Bachmann	158,559	*
Sheldon M. Berman (1)	77,562	*
Joe R. Cooper	194,950	*
Steven S. Fishman	200,000	*
David T. Kollat	162,034	*
Brenda J. Lauderback	55,300	*
Philip E. Mallott	22,500	*
Ned Mansour	28,000	*
John C. Martin	206,277	*
Michael J. Potter	1,468,326	1.3%
Russell Solt	22,000	*
James R. Tener	0	*
Dennis B. Tishkoff	65,422	*
Brad A. Waite	650,057	*
FMR Corp. (2)	17,036,630	15.0%
Cooke & Bieler, L.P. (3)	12,507,190	11.0%
First Pacific Advisors, Inc. (4)	10,611,300	9.3%
Capital Research and Management Company (5)	9,271,400	8.1%
Royce & Associates, LLC (6)	8,159,700	7.2%
Sasco Capital, Inc. (7)	6,303,500	5.5%
Westport Asset Management, Inc. (8)	5,835,182	5.1%
All directors & executive officers as a group (19 persons)	4,334,099	3.8%

\* Represents less than 1.0% of the outstanding common shares.

(1) Includes 5,468 common shares owned by Xtream Creative, Inc., of which Mr. Berman serves as Chairman, Chief Executive Officer and President.

(2) In its joint statement on Schedule 13G/A filed on February 14, 2006 with Edward C. Johnson III, FMR Corp. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, which number includes 16,933,816 shares (14.9% of the common shares at that date) beneficially owned by Fidelity Management & Research Company in its capacity as investment

## Edgar Filing: BIG LOTS INC - Form DEF 14A

adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940, and 102,814 shares beneficially owned by Fidelity Management Trust Company as a result of its serving as investment manager for various institutional accounts. Of the common shares reported in the table above, FMR Corp. had sole voting power over 445,134 shares and sole dispositive power over all of the shares.

- (3) In its Schedule 13G/A filed on February 15, 2006, Cooke & Bieler, L.P. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, had no sole voting power over the shares, shared voting power over 7,094,490 of the shares, no sole dispositive power over the shares, and shared dispositive power over 12,074,090 of the shares.
- (4) In its Schedule 13G/A filed on February 10, 2006, First Pacific Advisors, Inc. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, had shared voting power over 3,478,100 of the shares, and shared dispositive power over all the shares.
- (5) In its joint statement on Schedule 13G/A filed on February 10, 2006 with The Growth Fund of America, Inc., Capital Research and Management Company stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, had sole voting power over 4,271,400 of the shares and sole dispositive power over all the shares, and that The Growth Fund of America, Inc. had sole voting power over 5,000,000 of the shares and no dispositive power over any of the shares.

- 11 -

- 
- (6) In its Schedule 13G/A filed on January 11, 2006, Royce & Associates, LLC stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, and had sole voting power and sole dispositive power over all of the shares.
  - (7) In its Schedule 13G filed on February 6, 2006, Sasco Capital, Inc. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, and had sole voting power over 2,644,200 of the shares and sole dispositive power over all of the shares.
  - (8) In its Schedule 13G filed on February 13, 2006, Westport Asset Management, Inc. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2005, had sole voting power over 1,360,906 of the shares, shared voting power over 3,968,739 of the shares, sole dispositive power over 1,360,906 of the shares, and shared dispositive power over 4,474,276 of the shares. Westport Asset Management, Inc. owns 50% of Westport Advisors LLC, an investment advisor with whom it shares voting power over 3,968,739 of the shares.
  - (9) The persons named in the table have sole voting power and dispositive power with respect to all common shares of the Company shown as beneficially owned by them, except as otherwise stated in the footnotes to this table. The amounts set forth in the table include common shares that may be acquired within 60 days of the record date under stock options exercisable within that period. Of the common shares reported for Messrs. Berman, Cooper, Fishman, Kollat, Mallott, Mansour, Martin, Potter, Solt, Tener, Tishkoff and Waite, and Mss. Bachmann and Lauderback, and for all directors and executive officers as a group, 62,813, 160,000, 0, 62,813, 20,000, 20,000, 150,000, 1,392,500, 20,000, 0, 62,813, 562,500, 130,000, 55,000 and 3,624,189, respectively, are common shares which may be acquired within 60 days of the record date under stock options exercisable within that period.
  - (10) The amounts reported in the table above include common shares of the Company that it has acquired for purposes of the Company's obligation to match a portion of the Named Executive Officers' respective contributions to the Big Lots Supplemental Savings Plan. With respect to the contributions of Messrs. Cooper, Fishman, Martin, Potter and Waite, and Ms. Bachmann, 2,121, 0, 903, 31,346, 16,470 and 590 common shares were acquired by the Company, respectively. The Named Executive Officers do not have voting or dispositive power with respect to the common shares held by the Company in connection with the Big Lots Supplemental Savings Plan.

The addresses of the persons shown in the table above as a beneficial owner of more than 5% of the Company's common shares are as follows: FMR Corp., Fidelity Management & Research Company, and Fidelity Management Trust Company, 82 Devonshire Street, Boston, MA 02109; Cooke & Bieler, L.P., 1700 Market Street, Philadelphia, PA 19103; First Pacific Advisors, Inc., 11400 West Olympic Boulevard, Suite 1200, Los Angeles, CA 90064; Capital Research and Management Company, 333 South Hope Street, Los Angeles, CA 90071; Royce & Associates, LLC, 1414 Avenue of the Americas, New York, NY 10019; Sasco Capital, Inc., 10 Sasco Hill Road, Fairfield, CT 06824; and Westport Asset Management, Inc., 253 Riverside Avenue, Westport, CT 06880.

### Section 16(a) Beneficial Ownership Reporting Compliance



## Edgar Filing: BIG LOTS INC - Form DEF 14A

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires the Company's directors and executive officers, and persons who beneficially own more than 10% of the Company's outstanding common shares, to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of common shares of the Company. Executive officers, directors and greater than 10% shareholders are required by the regulations of the SEC to furnish the Company with copies of all Section 16(a) reports they file. Based upon a review of filings with the SEC and written representations that no other reports were required, the Company believes that all of its directors, executive officers and 10% shareholders complied during fiscal 2005 with the reporting requirements of Section 16(a) of the Exchange Act, with the exception of the Form 3 that was filed late by Mr. Tener to report that he did not beneficially own any of the Company's securities.

- 12 -

---

### AUDIT COMMITTEE REPORT

The Audit Committee (referred to as the Committee for purposes of this Report) assists the Board in fulfilling its oversight responsibility with respect to the integrity of the Company's accounting, auditing and reporting processes. Annually, the Committee selects the Company's independent auditors. Deloitte & Touche LLP was selected as the Company's independent auditors for fiscal 2005. As of the date of the Proxy Statement, no independent auditor has been selected for the fiscal year ending February 3, 2007 (fiscal 2006), as the Committee believes it to be in the Company's best interest to delay its selection until a reasonable time following the completion of the fiscal 2005 audit.

The Committee consists of three outside directors of the Board. The Company's common shares are listed on the NYSE. The members of the Committee have been reviewed by the Board and determined to be independent within the meaning of all applicable SEC regulations and the listing standards of the NYSE.

The charter of the Committee specifies that the purpose of the Committee is to assist the Board in its oversight of:

- the integrity of the Company's financial statements and financial reporting process, and the Company's systems of internal accounting and financial controls;
- the Company's compliance with legal and regulatory requirements, including the Company's disclosure controls and procedures;
- the annual independent audit of the Company's financial statements, the engagement of the independent auditor, and the evaluation of the independent auditor's qualifications, independence and performance;
- the performance of the Company's internal audit function;
- the evaluation of enterprise risk issues; and
- the fulfillment of other responsibilities set forth in its charter.

The full text of the Committee's charter is included as Appendix II to this Proxy Statement and is available on the Company's website at [www.biglots.com](http://www.biglots.com) under the Investor Relations Governance caption. The Committee regularly reviews its responsibilities as outlined in its charter, prepares an annual agenda to include all of its responsibilities, conducts a self-assessment and review of the charter annually, and believes it fulfilled its responsibilities thereunder in fiscal 2005.

The Committee met twelve times during fiscal 2005. The Committee schedules its meetings with a view towards ensuring that it devotes appropriate attention to all of its responsibilities. The Committee's meetings include, whenever appropriate, executive sessions with the Company's independent auditors and with the Company's internal auditors, in each case without the presence of the Company's management. The Committee also meets in executive session without the presence of anyone else, whenever appropriate.

During the course of fiscal 2005, management completed the documentation, testing and evaluation of the Company's system of internal control over financial reporting in accordance with the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. The Committee was apprised of the progress of the evaluation and provided oversight and advice to management during the process. In connection with this oversight, the Committee received periodic updates provided by management and Deloitte & Touche LLP at each regularly scheduled Committee meeting. The Committee also reviewed the report of management contained in the Company's Annual Report on Form 10-K for fiscal 2005, as well as Deloitte & Touche LLP's Report of Independent Registered Public Accounting Firm included in the Company's

## Edgar Filing: BIG LOTS INC - Form DEF 14A

Annual Report on Form 10-K related to its audit of (i) the Company's consolidated financial statements and financial statement schedule, (ii) management's assessment of the effectiveness of internal control over financial reporting, and (iii) the effectiveness of internal control over financial reporting. The Committee continues to oversee the Company's efforts related to its internal control over financial reporting and management's preparations for the evaluation in fiscal 2006.

- 13 -

The Committee has reviewed and discussed the audited financial statements with management and Deloitte & Touche LLP. Management has the primary responsibility for the financial statements and the reporting process. The Committee has discussed with Deloitte & Touche LLP the matters required to be discussed by SAS No. 61 (Codification of Statements on Auditing Standards, AU Section 380), as modified or supplemented. The Committee has received written disclosures and a letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as modified or supplemented, and has discussed the independence of Deloitte & Touche LLP with Deloitte & Touche LLP.

The Committee has also considered whether Deloitte & Touche LLP's provision of any non-audit services to the Company is compatible with maintaining the independence of Deloitte & Touche LLP. Consistent with the Committee's Audit and Non-Audit Services Pre-Approval Policy, all audit and non-audit services rendered by Deloitte & Touche LLP in fiscal 2005, including the related fees, were pre-approved by the Committee. Under the policy, the Committee is required to pre-approve all audit and permissible non-audit services performed by the independent auditor in order to assure that the provision of those services does not impair the independent auditor's independence. Pre-approval is detailed as to the particular service or category of service and is subject to a specific engagement authorization. The Committee requires the independent auditor and management to report on the actual fees incurred for each category of service at Committee meetings throughout the year.

During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services which have not been approved. In those instances, the Committee requires specific pre-approval before engaging the independent auditor. The Committee may delegate pre-approval authority to one or more of its members for those instances when pre-approval is needed prior to a scheduled Committee meeting. The member or members to whom pre-approval authority is delegated must report any pre-approval decisions to the Committee at its next scheduled meeting.

The fees incurred by the Company for the professional services rendered by Deloitte & Touche LLP during the two most recently completed fiscal years were as follows:

	Fiscal 2005	Fiscal 2004
Audit Fees	\$ 1,627,000	\$ 1,367,000
Audit-Related Fees (a)	\$ 109,000	\$ 120,000
Tax Fees (b)	\$ 25,000	\$ 114,000
All Other Fees	\$	\$
Total Fees	\$ 1,761,000	\$ 1,601,000

(a) Principally audits of employee benefit plans and accounting consultation.

(b) Principally tax planning and tax compliance services.

The Committee has also reviewed key initiatives and programs aimed at strengthening the effectiveness of the Company's internal and disclosure control structure. As part of this process, the Committee continued to monitor the scope and adequacy of the Company's internal auditing program, reviewing staffing levels and steps taken to implement recommended improvements in internal procedures and controls. Based on all of these discussions and a review of all the items delivered, the undersigned members of the Committee recommended to the Board that it approve the inclusion of the Company's audited consolidated financial statements in the Company's Annual Report on Form 10-K for fiscal 2005, for filing with the SEC.

Members of the Audit Committee

Philip E. Mallott, Chair  
Russell Solt  
James R. Tener

- 14 -

---

## COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The compensation program for the Company's executives, including the CEO and the other executive officers named in the Summary Compensation Table (the Named Executive Officers), is administered by the Compensation Committee of the Board (referred to as the Committee for purposes of this Report). In connection with the decision to shift certain responsibilities related to the identification of candidates for service on the Board and its committees from the Committee to the Nominating/Corporate Governance Committee, the Committee's charter was amended and its name was changed from the Nominating and Compensation Committee to the Compensation Committee in November 2005. Notwithstanding these changes, the role of the Committee continues to include establishing and implementing the philosophy, policies and procedures applicable to the Company's executive compensation program; reviewing and approving all executives' compensation; administering the Company's equity-based compensation plans and approving grants made to executives thereunder; and reporting on the entirety of the executive compensation program to the Board. The Committee's charter reflects these responsibilities, and the Committee and the Board periodically review the charter and revise it as needed. The charter, as last revised in November 2005, is available on the Company's website at [www.biglots.com](http://www.biglots.com) under the Investor Relations Governance caption.

The Committee's membership is determined by the Board and is composed of three outside directors who are independent within the meaning of the listing standards of the NYSE. The Committee meets at scheduled times during the year and as otherwise needed. The Committee Chair reports on Committee actions and recommendations at Board meetings. The Company's Human Resources Department and a management working group support the Committee's efforts and, in some cases, act pursuant to delegated authority to fulfill various functions in administering the Company's compensation programs. In addition, the Committee has the authority to engage the services of outside advisers, experts and others to assist the Committee. As discussed in greater detail below, in fiscal 2005, the Committee engaged an outside compensation consulting firm to assist the Committee in its review of the compensation program for executives and other members of management. In connection with its role in developing a reasonable and competitive compensation package for the Company's new CEO, the Committee also relied upon information provided by an outside executive search firm.

### Committee Meetings

In fiscal 2005, the Committee met four times with 100% attendance. At the first Committee meeting during the year, all components of the CEO's and other executives' compensation were reviewed and analyzed. Information concerning the CEO's and other executives' compensation was distributed prior to the meeting to ensure that the Committee members had time to ask for additional information, raise questions, and further discuss the compensation amounts.

### Compensation Philosophy

The Committee's general compensation philosophy is that total compensation should vary with the Company's performance in achieving financial and non-financial objectives, and any incentive compensation should be closely aligned with the shareholders' interests. This philosophy applies to all of the Company's full-time, salaried employees, with a more significant level of variability and compensation at risk as an employee's level of responsibility increases.

The Committee believes that the strong performance of its executives is a key to the Company's success. Consequently, the Committee has adopted compensation incentives, both short-term and long-term, with a goal of maximizing shareholder value. The Committee feels that these incentives should be implemented with a high degree of responsiveness to the performance of the Company. To achieve this responsiveness, importance is placed upon executive participation in the Company's performance through equity ownership and bonus opportunities based upon the Company's performance. Guided by principles that reinforce the Company's pay-for-performance philosophy, the primary compensation components for all executives, including the CEO and the other Named Executive Officers, consist of salary, bonus opportunities under the Company's 1998 Key Associate Annual Incentive Compensation Plan, as amended and restated in 2001 (the 2001 Bonus Plan), and equity awards made under the expired 1996 Incentive Plan and the successor Big Lots 2005 Long-Term Incentive Plan (the 2005 Incentive Plan). The Committee believes these components properly align the financial interests and success of

- 15 -

executives with those of the shareholders. In addition, executives are entitled to certain benefits according to the Company's policies and under the Company's health, insurance and retirement plans.

In fiscal 2004, the Committee engaged in a review of the executive compensation program and the philosophy driving the program. In fiscal 2005, the Committee continued this critical review, with the goal of developing the appropriate mix of fixed and variable compensation linked to individual and Company performance. In the course of this review, the Committee sought the advice of an outside compensation consultant and Company management. The Committee also identified the key strategic compensation design priorities for the Company: align executive compensation with shareholder interests; inspire and reward superior performance by executives and the Company; retain executives by paying them competitively; motivate executives to contribute to the Company's success and reward them for their performance; manage executive compensation costs; and continue to focus on corporate governance. The Committee also considered whether any changes should be made to the Company's compensation programs in support of these strategic priorities. With the exception of the restricted stock award to Mr. Fishman discussed below, the Committee chose not to employ equity vehicles in fiscal 2005 that differ between the executives and the broad-based employee population. Instead, it used non-qualified stock options as long-term incentives and for the retention for many employees, including executives.

### **Executive Compensation Practices**

The Committee does not rely solely on predetermined formulas or a limited set of criteria when it evaluates the performance of the CEO, the other Named Executive Officers, and the Company's other executives. Annually, the Committee surveys the executive compensation practices of selected Standard & Poor's Retail Stores Index companies and other companies with similar revenues. Included in this competitive set are discount retailers, dollar stores, deep discount drugstore chains, traditional retailers, and specialty retailers. The Committee's practice is to target total direct compensation levels for the Company's executives at a competitive level when compared with total direct compensation of surveyed companies, adjusted to the Columbus, Ohio market when possible. Total direct compensation includes salary, bonus at the targeted level, and equity incentives. Overall individual performance is measured against the following factors, though these factors vary as required by business conditions:

- long-term strategic goals;
- short-term business goals;
- revenue and profit goals;
- improving operating margins;
- revenue growth versus the industry;
- earnings-per-share growth;
- continued optimization of organizational effectiveness and productivity;
- the development of talent and leadership throughout the Company; and
- the fostering of teamwork and other Company values.

In setting the goals and measuring an executive's performance against those goals, the Committee also considers the performance of its competitors and general economic and market conditions. None of the factors used by the Committee are assigned a specific weight. Instead, the Committee recognizes that the relative importance of these factors may change in order to adapt the Company's operations to specific business challenges and to reflect the changing economic and marketplace conditions. The success of each executive's efforts and their benefits to the Company cannot, of course, be quantifiably measured, but the Committee believes they are vital to the Company's continuing success.

### **Executive Compensation Components**

## Edgar Filing: BIG LOTS INC - Form DEF 14A

The compensation program for the Company's executives, including the CEO and the other Named Executive Officers, consists of the following four components:

salary;

bonus;

- 16 -

---

equity; and

benefits/perquisites.

The Company's executives, including the CEO and the other Named Executive Officers, are not provided with compensation outside of these components. The Committee believes this is important in order to establish a culture that places value on the contributions of all of the Company's employees.

### **Salary**

Salary is base cash compensation and is determined by individual performance and the competitive market. Salary for each executive is established annually based on a salary range that corresponds to the executive's job responsibilities and overall individual job performance. A minimum salary for the CEO and each other Named Executive Officer has been established in their respective employment agreements.

### **Bonus**

The 2001 Bonus Plan provides for cash compensation to be paid annually when certain Company financial measures ( performance criteria ) are achieved. No right to a minimum bonus exists under the 2001 Bonus Plan. Bonuses are only paid when the Company achieves the specific performance criteria established at the Committee's sole discretion. The Committee derives the performance criteria from the Company's planned earnings for the fiscal year, as approved by the Board at the start of the fiscal year.

The Committee also defines the performance goals, often referred to as floor, target and stretch, at the time that the performance criteria are established. The performance goals equate to a percentage of the salary of the CEO and each of the other Named Executive Officers. Performance goals are established at three levels: the lowest percentage of salary that will be paid if the threshold performance criteria set by the Committee are met but the targeted performance criteria are not fully achieved ( floor ); the percentage of salary that will be paid if the performance criteria set by the Committee are met ( target ); and the percentage of salary that will be paid if the performance criteria are exceeded, subject to a maximum set by the Committee ( stretch ). The bonus awards that may be earned under the 2001 Bonus Plan range from the floor to the stretch performance goals, and include all amounts in between. The target and stretch performance goals for the CEO and each of the other Named Executive Officers has been established in their respective employment agreements, while the floor is set annually by the Committee. For executives other than the CEO and the other Named Executive Officers, the performance goals approved by the Committee are set by position level. Subject to the terms of the employment agreements, the Committee retains the right to adjust the performance goals.

During fiscal 2005, the Company's executives, including the CEO and the other Named Executive Officers, participated in the 2001 Bonus Plan; however, no bonuses were paid under the 2001 Bonus Plan as the performance criteria established by the Committee were not met. As discussed below, one-time bonuses were paid to the CEO and the other Named Executive Officers in fiscal 2005. Mr. Fishman received a bonus in connection with the commencement of his employment in July 2005, and each of the other Named Executive Officers (excluding Mr. Potter) received a bonus in connection with the fulfillment of their obligations under their respective retention packages dated January 6, 2005.

### **Equity**

At the 2005 Annual Meeting, shareholders approved the 2005 Incentive Plan. The 2005 Incentive Plan replaced the 1996 Incentive Plan, which expired on December 31, 2005. Beginning January 1, 2006, equity awards will be issued under the 2005 Incentive Plan.

Like its replacement, the 1996 Incentive Plan is designed to encourage creation of long-term value for the Company's shareholders and equity ownership by the Company's executive officers, including the CEO and the other Named Executive Officers. Each stock option grant allows the

executive to acquire common shares of the Company, subject to the completion of a vesting period and continued employment with the Company. Once vested, these common shares may be acquired at a fixed price per share (the fair market value on the grant date) and remain exercisable for the term set by the Committee. An executive's grant amount, if any, is

- 17 -

---

made at the Committee's discretion and is based on competitive market conditions, the position of the executive, and individual and Company performance, and is subject to the limits set forth in the 1996 Incentive Plan. Historically, the vesting period of stock options has been five years and the term has been ten years. During fiscal 2005, the Company granted stock options to certain of the Company's executives, excluding the Named Executive Officers, under the historical vesting period and term. In connection with the commencement of his employment as the Company's CEO, Mr. Fishman was granted a stock option that vests equally over four years and expires seven years after the grant date. Just as the Committee continues to assess the reasonableness of each component of executive compensation, the Committee will continue to review the appropriateness of vesting periods and term.

On November 21, 2005, the Company announced that the Committee, after discussion with the Board, approved accelerating the vesting of stock options awarded on or before February 21, 2005, except those stock options previously granted to Mr. Potter. As Mr. Fishman's hire date was July 11, 2005, the stock options that he held were not accelerated. Additionally, the Committee imposed a holding period that requires all directors, executive vice presidents, and senior vice presidents (including the Company's named executive officers other than Messrs. Fishman and Potter, whose options were not accelerated) to refrain from selling net shares acquired upon any exercise of these accelerated options, until the date on which the exercise would have been permitted under the options' original vesting terms or, if earlier, the executive officer's death, disability or termination of employment. In addition to the perceived positive effect on associate morale and retention, the decision to accelerate vesting of stock options was made primarily to reduce non-cash compensation expense that would have been recorded following the adoption of SFAS No. 123(R) in the first quarter of fiscal year 2006.

During fiscal 2005, the Company also made a restricted stock grant to Mr. Fishman in connection with the commencement of his employment. The restricted stock granted to Mr. Fishman in fiscal 2005 is held in escrow and will vest fully after five years of service or in thirds upon the earlier attainment of common share price targets. This restricted stock award will also vest fully if there is a change in effective control of the Company (as defined in the 1996 Incentive Plan), and will vest on a prorated basis in the event that Mr. Fishman dies or becomes disabled before the lapse of the five year term. The restricted stock award will be forfeited, in whole or in part, as applicable, if Mr. Fishman's employment terminates.

#### ***Benefits/Perquisites***

The Company's philosophy is to offer employees protection from catastrophic events by offering health (medical, dental and vision) benefits under the Big Lots Associate Benefit Plan (the "Benefit Plan") and by making disability coverage available. Where applicable, employees are responsible for managing benefit choices and balancing their own level of risk and return. During fiscal 2005, the Company offered medical benefits to its executives, including the CEO and the other Named Executive Officers, that were generally available to its other employees under the Benefit Plan, plus the opportunity to participate in the Big Lots Executive Benefit Plan (the "Executive Benefit Plan"). The Executive Benefit Plan is a supplemental health benefit plan that reimburses participants for medical costs incurred but not covered under the Benefit Plan, up to an annual maximum reimbursement of \$40,000 per family. Amounts received by participants in the Executive Benefit Plan are treated as taxable income. The Company reimburses each executive receiving taxable benefits under the Executive Benefit Plan for the approximate amount of the executive's income and payroll tax liability relating to the benefits received. Also during fiscal 2005, the Company offered short-term disability coverage to most employees and long-term disability coverage to all salaried employees. For executives, including the CEO and the other Named Executive Officers, the benefit under the long-term disability coverage is greater than for employees below the level of vice president. Under the long-term disability coverage, an executive may receive 67% of his or her monthly salary, up to \$25,000 per month, until the executive is no longer disabled or turns age 65, whichever occurs earlier. The premiums for long-term disability coverage are paid by the Company, and the Company pays the executive the amount necessary to hold him or her harmless from the income taxes resulting from premium payments.

The Company also provides executives with certain personal benefits. Personal benefits that are generally available to all officers at or above the level of vice president include the option of using a Company automobile or accepting a monthly allowance, and the use of a cellular telephone and a personal digital

- 18 -

---

assistant. Additionally, the Company provides executives with certain other personal benefits consistent with programs offered to substantially all of the Company's salaried employees, including discounted purchases at the Company's stores and tuition reimbursement.

### **Comprehensive Review Process**

During fiscal 2005, the Committee reviewed all components of executive compensation—salary, bonus, equity and benefits/perquisites—as well as the accumulated realized and unrealized stock option gains. Additionally, the Committee analyzed the market competitiveness and effectiveness of the design of the Company's executive compensation program. In order to assist with these deliberations, the Committee engaged an outside compensation consulting firm.

With respect to the salary component of the Company's executive compensation program, the Committee reviewed the salaries of the Company's top 11 compensated executives and salary survey information from the competitive market. When considering adjustments in base salary, the Committee considered several factors, including compensation history of the executive, market data and competitive factors.

As part of its review of the bonus component of the Company's executive compensation program, the Committee determined that the performance criteria established by the Committee for the fiscal year ended January 29, 2005 (fiscal 2004) were not satisfied and, accordingly, no bonuses would be paid under the 2001 Bonus Plan for performance in fiscal 2004. For fiscal 2005, the Committee considered the various indicia of Company achievement in order to establish meaningful performance criteria under the 2001 Bonus Plan. The Committee chose to use a formula based on the executive's salary and a measure of the Company's income. To determine eligibility and the amounts of each executive's bonus for fiscal 2005, each executive's salary was multiplied by the performance criteria set by the Committee. The performance criteria established by the Committee for fiscal 2005 were based on the greater of (i) income from continuing operations, (ii) income (loss) from continuing operations before extraordinary items and/or the cumulative effect of a change in accounting principle, or (iii) income before extraordinary items, with each such measure being adjusted to remove the effect of unusual or non-recurring event items. In making adjustments to remove the effect of unusual or non-recurring event items, the Committee took into account: asset impairments under Statement of Financial Accounting Standards No. 144, as amended or superseded; acquisition-related charges; accruals for restructuring and/or reorganization program charges; merger integration costs; merger transaction costs; any loss attributable to the business operations of any entity or entities acquired during fiscal 2005; tax settlement charges; any extraordinary, unusual in nature, infrequent in occurrence, or other non-recurring item charges (not otherwise listed) as described in Accounting Principles Board Opinion No. 30; any extraordinary, unusual in nature, infrequent in occurrence, or other non-recurring item charges (not otherwise listed) in management's discussion and analysis of financial condition and results of operations, selected financial data, financial statements and/or in the footnotes to financial statements, each as appearing in the annual report to shareholders; unrealized losses on investments; charges related to derivative transactions contemplated by Statement of Financial Accounting Standards No. 133, as amended or superseded (such as the amendment by Statement 138, if applicable); and/or compensation charges related to stock option activity.

The Committee also allows bonus payouts at lower than target levels (floor), greater than target levels (stretch), and all amounts in between. The Committee believes the performance criteria established for fiscal 2005 bear a strong relationship to its philosophy of tying executive compensation to shareholder value. The Committee's aim in setting the bonus objectives was to reward 2001 Bonus Plan participants while generating substantial free cash flow and strong earnings growth for the Company.

In light of the Company's results in fiscal 2005, the performance criteria established by the Committee were not satisfied and no bonuses were paid under the 2001 Bonus Plan for performance in fiscal 2005. As discussed below, Mr. Fishman and each of the other Named Executive Officers (excluding Mr. Potter) received one-time bonuses in fiscal 2005. Consequently, fiscal 2005 total cash compensation for the CEO and the other Named Executive Officers (excluding Mr. Potter) was on par with the market average. Excluding the one-time bonuses, the total executive cash compensation remained below the market average, because the Committee's philosophy requires that the Company consistently perform at high levels to deliver at or above-market compensation. Based on its review, the Committee has determined that the CEO's and the other

- 19 -

---

Named Executive Officers' total compensation was reasonable and not excessive. It should be noted that when the Committee considers any component of the CEO's or another Named Executive Officer's total compensation, the aggregate amounts and mix of all the components, including accumulated (realized and unrealized) equity award gains are taken into consideration in the Committee's decisions.

### **Internal Pay Equity**

In the process of reviewing each component of compensation separately, and in the aggregate, the Committee directs the Company's Human Resources Department to prepare a summary showing the relative compensation of each level of management (e.g., between the CEO and other Named Executive Officers, and then between the CEO and the lower levels of executives). The comparison includes all components of compensation. Prior to hiring Mr. Fishman, the Committee believed that the relative difference between CEO compensation and the compensation of the Company's other executives had not increased significantly over the years. While Mr. Fishman's compensation package increases the relative difference between CEO compensation and the compensation of the Company's other executives, the Committee believes that the increase in compensation from Mr. Potter to Mr. Fishman was appropriate and necessary in order to attract a chief executive with Mr. Fishman's experience. The factors considered with establishing Mr. Fishman's compensation are described in greater detail below.

#### **Compensation for the Chief Executive Officer in Fiscal 2005**

In fiscal 2005, in connection with his commencement as Chairman, CEO and President, Mr. Fishman entered into an employment agreement with the Company. Mr. Fishman replaced Mr. Potter on July 11, 2005.

While the Committee generally followed the philosophy and practices described above to determine Mr. Fishman's fiscal 2005 compensation (e.g., tying a substantial portion of total compensation to the Company's future performance with non-qualified stock options, restricted stock, and a performance-based cash bonus opportunity), the Committee believed that it was inappropriate to consider the Company's prior performance when establishing Mr. Fishman's compensation. In setting both the cash-based and equity-based elements of Mr. Fishman's compensation, the Committee made an overall assessment of his ability to formulate and execute the Company's long-term and short-term strategic, operational and business goals. Additionally, in order to attract Mr. Fishman with a compensation package that was competitive within the discount retail industry, the Committee also considered information provided by an outside executive search firm. Accordingly, Mr. Fishman's total compensation reflects a consideration of both competitive forces and the perceived value that Mr. Fishman brings to the Company.

Mr. Potter's compensation was established by his employment agreement dated January 6, 2005, in accordance with the philosophy and practices described above and in recognition of his desire to transition from his role as Chairman, CEO and President.

#### ***CEO Salary***

Mr. Fishman's salary was established based on the competitive forces and perceived value described above. While his employment agreement does not provide for automatic salary increases, such increases (if any) are made in the sole discretion of the Committee during its annual review process of the Company's executives. The Committee has chosen not to adopt any specific schedule of salary increases, and may adjust Mr. Fishman's salary without regard to adjustments in the salaries of other executives of the Company. Generally, the Committee will look to the factors described above, including Company performance, in determining the amount of Mr. Fishman's salary increase (if any). The Committee does not weigh such factors in advance or tie Mr. Fishman's salary to specific performance criteria. For fiscal 2005, Mr. Fishman's annualized salary was \$960,000.

Pursuant to his employment agreement, Mr. Potter's fiscal 2005 annualized salary was \$765,000 for the period in which he served as CEO.

- 20 -

---

#### ***CEO Bonus***

Mr. Fishman's bonus is determined in accordance with his employment agreement and the 2001 Bonus Plan. Under the 2001 Bonus Plan, Mr. Fishman's bonus is based upon the Company's achievement of specific performance criteria established by the Committee. Although his employment agreement provides him with the opportunity to earn a target bonus equal to 77.08% of his salary and a stretch bonus equal to 165.63% of his salary (no right to a minimum bonus exists in the employment agreement), the establishment of the Company's performance criteria applicable to his performance goals are solely in the Committee's discretion. As a result of the Company's performance in fiscal 2005, Mr. Fishman did not receive a bonus under the 2001 Bonus Plan. Mr. Fishman did, however, receive a one-time bonus of \$750,000 in connection with the commencement of his employment. The one-time bonus is conditioned upon Mr. Fishman continuing his employment with the Company for one year. Should Mr. Fishman voluntarily terminate his employment within one year, he would be obligated to reimburse the Company the full amount of the one-time bonus.

While Mr. Potter's employment agreement provided him the opportunity to earn a bonus under the 2001 Bonus Plan during the period in which he served as CEO, no bonus was paid to Mr. Potter for fiscal 2005.

#### ***CEO Equity***



The Committee believes that the grant of a significant quantity of stock options and restricted stock to Mr. Fishman further links Mr. Fishman's interests with the interests of the shareholders. Consequently, Mr. Fishman's equity interests in the Company, through stock options and restricted stock granted under the 1996 Incentive Plan, comprise a substantial portion of his compensation and align his personal rewards and motivation with Company performance and shareholder value. Stock options and restricted stock are granted to Mr. Fishman at the discretion of the Committee. Contemporaneous with his hiring and consistent with the competitive market review conducted by the Committee, Mr. Fishman was awarded a non-qualified stock option to acquire 500,000 common shares of the Company and 100,000 restricted common shares. Mr. Fishman's stock option has an exercise price equal to the fair market value of the Company's common shares at the date the stock option was granted, vests equally over four years, and expires seven years after the grant date. Mr. Fishman's restricted stock will vest fully after five years of service or in one-third increments upon the earlier attainment of common share price targets. The restricted stock award will also vest fully if there is a change in effective control of the Company (as defined in the 1996 Incentive Plan), and will vest on a prorated basis in the event that Mr. Fishman dies or becomes disabled before the lapse of the five year term. The restricted stock award will be forfeited, in whole or in part, as applicable, if Mr. Fishman's employment terminates for any reason before the restrictions lapse.

Given his previously announced intention to transition from his role as CEO, the Committee elected not to grant Mr. Potter equity compensation in fiscal 2005.

#### **Compensation for Other Executives in Fiscal 2005**

Compensation for the Company's non-CEO executives, including the other Named Executive Officers, is based on the Committee's assessment of each executive's contributions to the Company's financial and non-financial goals. The Committee also considers the recommendation of, and relies upon information provided by, the CEO in making its assessment and reaching its decision with respect to non-CEO executives. As described above, the Committee undertakes a comprehensive review to align executives' compensation with shareholders' interests, reinforce the Company's pay-for-performance philosophy, and adhere to the Committee's overall compensation values.

#### ***Non-CEO Salary***

The salaries paid to the other Named Executive Officers in fiscal 2005 are shown in the Annual Compensation Salary column of the Summary Compensation Table. Each of the other Named Executive Officers is a party to an employment agreement with the Company. Although these employment agreements establish the other Named Executive Officers' respective base salaries, the employment agreements do not provide for any automatic salary increases.

- 21 -

---

The salary component for the Company's executive officers, other than the CEO and the other Named Executive Officers, is based upon competitive market data for comparable positions at similarly sized companies, as adjusted to reflect the experience and expertise of the individual. Salary adjustments are subjectively determined, and are not formally tied to Company performance.

#### ***Non-CEO Bonus***

As shown in the Annual Compensation Bonus column of the Summary Compensation Table and accompanying footnote, no bonuses were paid to the other Named Executive Officers in fiscal 2005 in accordance with the 2001 Bonus Plan. The bonus component for the other Named Executive Officers consists of a percentage of salary earned as the Company achieves specific performance criteria established by the Committee. The percentage of salary is generally set by position level, subject to adjustments by the Committee based upon its subjective evaluation of the individual's performance. Each other Named Executive Officer's employment agreement provides an opportunity to earn a target bonus and a stretch bonus, but no right to a minimum bonus exists in the employment agreements. As with the Company's CEO, the establishment of the Company's performance criteria applicable to the other Named Executive Officers, as well as the performance goals of the other non-CEO executives, remains solely in the Committee's discretion. As a result of the Company's performance in fiscal 2005, none of the Company's non-CEO executives received a bonus under the 2001 Bonus Plan.

In connection with the retention packages previously discussed, each of the other Named Executive Officers received a one-time bonus in fiscal 2005. These one-time bonuses are reflected in the Annual Compensation Bonus column of the Summary Compensation Table and accompanying footnote. The purpose of the retention packages was to provide additional incentives for certain executives to remain with the Company while it selected and integrated a new CEO. In accordance with the retention packages, if the executive remained employed with the Company through February 1, 2006, or if the executive was involuntarily terminated before such date for any reason other than cause, he or she would receive a one-time bonus. The one-time retention bonuses paid to Mr. Waite, Mr. Martin, Ms. Bachmann and Mr. Cooper were \$375,000, \$279,000, \$187,500, and \$175,000, respectively. Had a bonus been earned by an executive under the 2001 Bonus Plan for fiscal 2005, it would have been reduced by the one-time bonus received by the executive under the retention package.

### **Non-CEO Equity**

The stock options granted to the other Named Executive Officers in fiscal 2005 are shown in the Long-Term Compensation Awards column of the Summary Compensation Table. The equity participation component for executives other than the CEO consists of non-qualified stock options and, in certain instances, restricted stock granted under the 1996 Incentive Plan. Equity awards are typically made near the beginning of each fiscal year during the Committee's annual review process and in an amount determined by position and performance in the prior fiscal year. In addition, equity awards are often made in connection with the promotion of an individual to a greater level of responsibility. The number of common shares covered by each equity award is set in advance by position, subject to adjustment based upon the Committee's subjective evaluation of the individual's performance.

### **Deductibility of Annual Compensation over \$1 Million**

Under the Omnibus Budget Reconciliation Act of 1993, provisions were added to Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), that generally limit the tax deductions for compensation expense in excess of \$1 million paid to the Company's CEO and the four other highest compensated executives. Compensation in excess of \$1 million may be deducted if it is performance-based compensation within the meaning of Section 162(m). For fiscal 2005, the Company believes it has taken the necessary actions to preserve the deductibility of all payments made under the Company's executive compensation program, with the exception of a portion of the compensation paid to Mr. Fishman. As the Code or the regulations promulgated thereunder change, the Committee intends to take reasonable steps to ensure the continued deductibility of payments under the Company's executive compensation program, while at the

- 22 -

---

same time considering the goals of the Company's executive compensation philosophy and the competitive market for outstanding leadership talent.

### **Summary**

The Committee believes the Company's compensation philosophy and program are designed to foster a performance-oriented culture that aligns employees' interests with those of its shareholders. The Committee further believes that the compensation of the Company's executives is reasonable, appropriate and responsive to the goal of improving shareholder return.

Members of the Compensation Committee

David T. Kollat, Chair  
Brenda J. Lauderback  
Dennis B. Tishkoff

## **EXECUTIVE COMPENSATION**

### **Employment Agreements**

The Company is a party to employment agreements with certain of its key executives, including the Named Executive Officers. These employment agreements are referred to as the Key Executive Agreements.

The terms of the Key Executive Agreements are substantially similar and they are described collectively herein except where their terms materially differ. The Key Executive Agreements are intended to assure the Company that it will have the continued dedication, undivided loyalty, and objective advice and counsel from these key executives in the event of a proposed transaction, or the threat of a transaction, which could result in a change of control of the Company. Annually, the Compensation Committee reviews the performance of each key executive to determine whether the key executive's salary and bonus should be adjusted.

Under the terms of their Key Executive Agreements, Messrs. Fishman, Waite, Martin and Cooper and Ms. Bachmann are each to receive a minimum base salary of \$960,000, \$405,000, \$450,000, \$350,000 and \$325,000, respectively, which amounts are not subject to an automatic increase. As discussed in the Compensation Committee Report on Executive Compensation, the salaries of the Named Executive Officers are determined annually by the Compensation Committee. At its annual review in February 2005, the Compensation Committee established the fiscal 2005 base salaries for Messrs. Fishman, Waite, Martin and Cooper and Ms. Bachmann at \$960,000, \$500,000, \$465,000, \$350,000 and

## Edgar Filing: BIG LOTS INC - Form DEF 14A

\$340,000, respectively. In connection with her assuming responsibility for the Company's information technology, Ms. Bachmann's base salary was subsequently increased to \$375,000 in August 2005.

Under the terms of his Key Executive Agreement, Mr. Potter will continue to be employed by the Company for two years following his resignation as CEO in July 2005. During this period, Mr. Potter will receive a base salary of \$382,500 and will be eligible to participate in the Company's benefit plans and such other programs as the Company provides for its employees. At the end of Mr. Potter's employment, he will receive a payment of \$765,000 in exchange for two-year non-competition and non-solicitation covenants.

Bonuses are not payable under the Key Executive Agreements unless the Company achieves a minimum threshold of its performance criteria. For fiscal 2005, Mr. Fishman's bonus was subject to a maximum of 165.63% of his base salary. By amendment to his Key Executive Agreement, this maximum amount was increased to 170% of his base salary beginning in fiscal 2006. Also for fiscal 2005, Messrs. Waite's, Martin's, and Cooper's and Ms. Bachmann's bonuses established by the Compensation Committee were subject to a maximum of 150%, 120%, 100% and 100% of their respective base salaries. Mr. Potter was eligible for a bonus only through the period in which he served as CEO.

The Key Executive Agreements require that the key executive devote his or her full business time to the affairs of the Company and prohibit the key executive from competing with the Company during employment and for a one-year period thereafter, in the case of Messrs. Fishman, Waite, Martin, and Cooper and Ms. Bachmann, and during employment and for a two-year period thereafter, in the case of Mr. Potter. The

- 23 -

---

period is reduced to six months for all key executives in the event of termination of employment following a Change of Control, as such term is defined in the Key Executive Agreements.

Under the Key Executive Agreements, each of the key executives' employment may be terminated by the Company for cause, as defined therein. If a key executive is terminated for cause, the Company has no further obligation to pay any compensation or to provide benefits to the key executive. If Mr. Fishman is terminated without cause, he will be entitled to receive continued salary payments and benefits for two years and will be eligible to receive a pro-rata bonus for the fiscal year in which the termination occurs. Should Messrs. Waite, Martin or Cooper or Ms. Bachmann be terminated without cause, the affected key executive will be entitled to receive continued salary payments and benefits for one year and will be eligible to receive a pro-rata bonus for the fiscal year in which the termination occurs. If Mr. Potter is terminated without cause, he will be entitled to receive benefits for two years following his resignation as CEO and the payment for non-competition described above.

Messrs. Fishman's, Waite's, Martin's and Cooper's and Ms. Bachmann's Key Executive Agreements provide that in the event the key executive is terminated within 24 months of a Change of Control, the affected key executive will receive a lump sum payment (net of any applicable withholding taxes) in an amount equal to two years of the key executive's then-current salary and two years of the key executive's then-current annual stretch bonus, and will be entitled to receive continued benefits for two years, in the case of Mr. Fishman, and one year, in the case of Messrs. Waite, Martin and Cooper and Ms. Bachmann. Mr. Potter's Key Executive Agreement provides that his employment shall automatically terminate in the event that a Change of Control occurs during the first 12 months after he ceases to serve as CEO, and he will then receive a lump sum payment (net of any applicable withholding taxes) in an amount equal to \$4,590,000 and will be entitled to receive continued benefits for two years.

A Change of Control of the Company would also cause each of the key executives to receive a payment (the Tax Gross-Up Amount) in the amount necessary to hold them harmless from the effects of Sections 280G and 4999 of the Code, which Code sections could subject the payments due under these Key Executive Agreements to excise tax liability (see the Executive Change In Control Severance Agreements section for more information). The compensation payable on account of a Change of Control may be subject to the deductibility limitations of Sections 162(m) and 280G of the Code.

### **Executive Change in Control Severance Agreements**

Since April 18, 1989, the Company has maintained Executive Severance Agreements with many of its key officers and employees (currently approximately 70 persons). The agreements expire on the anniversary of their execution and are automatically extended on an annual basis unless the Company provides at least 90 days notice that any particular agreement will not be extended. The agreements provide for severance benefits if, within 24 months after a Change in Control (as defined in the agreements and below), the key officer or employee's employment is terminated by the Company (other than for Cause, as defined in the agreements) or the key officer or employee resigns because of a material change in the circumstances of his or her employment. For purposes of the agreements, Change in Control means any one or more of the following: (i) any person or group (as defined for purposes of Section 13(d) of the Exchange Act) becomes the beneficial owner of, or has the right to acquire (by contract, stock option, warrant, conversion of convertible securities or otherwise), 20% or more of the outstanding equity

Edgar Filing: BIG LOTS INC - Form DEF 14A

securities of the Company entitled to vote for the election of directors; (ii) a majority of the Board is replaced within any period of two years or less by directors not nominated and approved by a majority of the directors in office at the beginning of such period (or their successors so nominated and approved), or a majority of the Board at any date consists of persons not so nominated and approved; or (iii) the shareholders of the Company approve an agreement to merge or consolidate with another corporation or an agreement to sell or otherwise dispose of all or substantially all of the Company's assets (including without limitation, a plan of liquidation). Notwithstanding these provisions, the agreements provide that a Change in Control shall not result from a transaction in which the Company exchanges less than 50% of its then outstanding equity securities for 51% or more of the outstanding equity securities of another corporation. The agreements provide for the following severance benefits: (i) for certain key officers having a position of vice president (or above) of the Company (or its

- 24 -

affiliates), a lump-sum payment equal to 200% of the key officer's then-current annual salary and stretch bonus; or (ii) for other employees having a position of departmental director of the Company (or its affiliates), a lump-sum payment equal to 100% of the employee's then-current annual salary and stretch bonus. Messrs. Fishman, Waite, Martin, Cooper and Potter and Ms. Bachmann are not a party to such an agreement, but each has substantially similar provisions contained in his or her respective Key Executive Agreement. The key officer or employee will also become entitled to reimbursement of legal fees and expenses incurred by the key officer or employee in seeking to enforce his or her rights under his or her agreement. Additionally, to the extent that payments to the key officer or employee pursuant to his or her agreement (together with any other amounts received by the key officer or employee in connection with a Change in Control) would result in triggering the provisions of Sections 280G and 4999 of the Code, each agreement provides for the payment of a Tax Gross-Up Amount such that the key officer or employee receives, net of excise taxes, the amount he or she would have been entitled to receive in the absence of the excise tax provided in Section 4999 of the Code. The compensation payable on account of a Change in Control may be subject to the deductibility limitations of Sections 162(m) and/or 280G of the Code. In addition, the 1996 Incentive Plan provides for immediate vesting of all outstanding stock options and restricted common shares in the event of such a Change in Control (see the Fiscal Year End Option Values table).

**Summary Compensation Table**

The following Summary Compensation Table sets forth the individual compensation earned by or paid to the Named Executive Officers (Mr. Fishman, the Company's CEO; each of the four other most highly compensated executive officers of the Company in fiscal 2005; and Mr. Potter who served as the Company's CEO until July 11, 2005) for services rendered to the Company during each of the past three fiscal years.

Name and Position	Annual Compensation				Long-Term Compensation		
	Fiscal Year	Salary (\$)	Bonus (\$)(a)	Other Annual Compensation (\$)(b)	Awards		
					Restricted Stock Awards (\$)(c)	Securities Underlying Options (#)(d)	All Other Compensation (\$)(e)(f)
Steven S. Fishman (g) <i>Chairman, Chief Executive Officer and President</i>	2005	535,385	750,000	134,315	1,125,000	500,000	0
	2004						
	2003						
Brad A. Waite <i>Executive Vice President, Human Resources, Loss Prevention, Real Estate and Risk Management</i>	2005	500,040	375,000	7,131	0	0	21,066
	2004	408,193	0	57,397	542,500	75,000	19,795
	2003	387,757	128,700	3,478	0	75,000	16,621
John C. Martin (h) <i>Executive Vice President, Merchandising</i>	2005	462,692	279,000	5,311	0	0	8,400
	2004	450,000	0	51,933	325,500	0	8,200
	2003	77,885	0	82,001	0	150,000	0
Lisa M. Bachmann	2005	352,510	187,500	6,766	0	0	8,400

Edgar Filing: BIG LOTS INC - Form DEF 14A

		Annual Compensation			Long-Term Compensation		
<i>Senior Vice President,</i>	2004	322,702	0	2,236	173,600	50,000	8,200
<i>Information Technology/ Merchandise Planning and Allocation</i>	2003	308,462	85,250	5,528	0	30,000	8,000
Joe R. Cooper	2005	350,027	175,000	4,587	0	0	8,400
<i>Senior Vice President and Chief Financial Officer</i>	2004	302,923	0	5,050	173,600	100,000	8,209
	2003	198,543	33,000	2,895	0	10,000	7,896
Michael J. Potter (i)	2005	551,716	0	2,206	0	0	16,385
<i>Former Chairman, Chief Executive Officer and President</i>	2004	762,692	0	5,177	0	350,000	15,362
	2003	742,346	412,500	6,838	0	350,000	13,053

- (a) Mr. Fishman's fiscal 2005 bonus was a one-time sign-on bonus paid in connection with the commencement of his employment with the Company. The other Named Executive Officers, excluding Mr. Potter, each

- 25 -

received bonuses in fiscal 2005 in connection with the retention packages awarded in January 2005. No bonuses were paid for fiscal 2005 under the 2001 Bonus Plan.

- (b) Except for Mr. Fishman in fiscal 2005, Mr. Waite in fiscal 2004 and Mr. Martin in fiscal 2004 and fiscal 2003, perquisites and other personal benefits for fiscal years 2003, 2004 and 2005 did not exceed the lesser of \$50,000 or 10% of each Named Executive Officer's salary and bonus, and these amounts were omitted pursuant to SEC rules. The amounts presented in this column, other than for Mr. Fishman in fiscal 2005, Mr. Waite in fiscal 2004 and Mr. Martin in fiscal 2004 and fiscal 2003, represent the reimbursement for the payment of taxes. Of the amounts presented in this column for Mr. Fishman in fiscal 2005, Mr. Waite in fiscal 2004 and Mr. Martin in fiscal 2004 and fiscal 2003, \$38,561, \$14,089, \$10,836 and \$29,979, respectively, represent the reimbursement for the payment of taxes. In fiscal 2005, Mr. Fishman received benefits in the amount of \$123,878 in connection with his relocation to near the Company's headquarters. In fiscal 2004, Mr. Waite received benefits in the amount of \$39,788 under the Executive Benefit Plan. In connection with his relocation near the Company's headquarters, Mr. Martin received benefits in the amount of \$30,021 in fiscal 2004 and \$79,312 in fiscal 2003.
- (c) Restricted stock awards made pursuant to the 1996 Incentive Plan. The restricted stock awarded to Mr. Fishman in fiscal 2005 was in connection with the commencement of his employment with the Company. Mr. Fishman's restricted stock is scheduled to vest in one-third increments upon the earlier of the attainment of common share price targets or fully after five years of service to the Company. The restricted stock awarded to Messrs. Waite, Martin and Cooper and Ms. Bachmann in fiscal 2004 is scheduled to vest equally over the first three anniversaries of the grant date and will fully vest if the grantee is terminated by the Company for any reason other than cause before the lapse of such three year period. Dividends payable prior to the vesting of the restricted stock are deferred until vesting occurs. The dividends will be forfeited if the restricted stock does not vest. Values shown in the above table are based on the closing market price for the Company's common shares on the date of each grant: \$11.25 on July 11, 2005 for Mr. Fishman and \$10.85 on January 6, 2005 for Messrs. Waite, Martin and Cooper and Ms. Bachmann. At the end of fiscal 2005, the remaining unvested restricted stock had a value, based on the closing market price of \$13.74 for the Company's common shares on January 28, 2006, of \$1,374,000 for Mr. Fishman's 100,000 shares, \$458,009 for Mr. Waite's 33,334 shares, \$274,800 for Mr. Martin's 20,000 shares, \$146,565 for Ms. Bachmann's 10,667 shares, and \$146,565 for Mr. Cooper's 10,667 shares. Mr. Potter does not hold any restricted stock.
- (d) Non-qualified stock options granted pursuant to the 1996 Incentive Plan.
- (e) Company matching contribution pursuant to the Big Lots Savings Plan and the Big Lots, Inc. Supplemental Savings Plan. The matching contribution for each of the Named Executive Officers other than Mr. Fishman was \$8,400 in fiscal 2005. The matching contribution for each of the Named Executive Officers other than Messrs. Fishman and Cooper was \$8,200 in fiscal 2004. The matching contribution for Mr. Cooper in fiscal 2004 was \$8,209. In fiscal 2003, Messrs. Waite, Cooper and Potter and Ms. Bachmann received matching contributions of \$8,000, \$7,896, \$8,000 and \$8,000, respectively. Mr. Fishman is not yet eligible to receive matching contributions

## Edgar Filing: BIG LOTS INC - Form DEF 14A

pursuant to the Big Lots Savings Plan and the Big Lots, Inc. Supplemental Savings Plan.

- (f) Accruals pursuant to the Big Lots, Inc. Supplemental Pension Plan for Mr. Waite were \$12,666, \$11,595 and \$8,621 for fiscal 2005, fiscal 2004 and fiscal 2003, respectively. Accruals for Mr. Potter were \$7,985, \$7,162 and \$5,053 for fiscal 2005, fiscal 2004 and fiscal 2003, respectively. Messrs. Fishman, Martin and Cooper and Ms. Bachmann are not participants in the Big Lots, Inc. Supplemental Pension Plan.
- (g) Mr. Fishman's employment with the Company commenced on July 11, 2005.
- (h) Mr. Martin's employment with the Company commenced on December 1, 2003.
- (i) Mr. Potter resigned his position as Chairman, CEO and President on July 11, 2005.

- 26 -

### Option Grants During Fiscal 2005

The following table reflects the number and value of stock options granted to the Named Executive Officers in fiscal 2005.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (c)	
	Securities Underlying Options Granted(#)(a)	Pct. of Total Options Granted to Employees in Fiscal Year( % )(b)	Exercise Price Per Share (\$)	Expiration Date	5% (\$)	10% (\$)
Steven S. Fishman	500,000	25.0	11.19	07/11/2012	3,518,665	8,916,989
Brad A. Waite	0	0.0				
John C. Martin	0	0.0				
Lisa M. Bachmann	0	0.0				
Joe R. Cooper	0	0.0				
Michael J. Potter	0	0.0				

- (a) Stock options granted pursuant to the 1996 Incentive Plan. Mr. Fishman's option vests equally over four years without regard to the attainment of any performance goals. Stock options were granted at the fair market value of the Company's common shares on the grant date.
- (b) Based on 1,999,800 non-qualified stock options granted to all associates in fiscal 2005.
- (c) Assumes a respective 5% or 10% annualized appreciation in the underlying common share price from the date of grant to the expiration date less the aggregate exercise price. The ultimate amount realized will depend on the market value of the common shares at a future date.

**Option Exercises During Fiscal 2005 and Fiscal Year End Option Values**

The following table reflects the aggregate stock option exercises by the Named Executive Officers during fiscal 2005 and the number and value of exercisable and unexercisable stock options held by the Named Executive Officers at January 28, 2006.

<u>Name</u>	<u>Shares Acquired on Exercise (#)</u>	<u>Number of Common Shares Underlying Unexercised Options at Fiscal Year-End (#)</u>	<u>Value of Unexercised In-the-Money Options at Fiscal Year-End (b)(\$)</u>