

BIG LOTS INC  
Form 10-K  
March 30, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
□□□□□□□□

**FORM 10-K**

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

**For the fiscal year ended January 31, 2009**

**Commission file number 1-8897**

**BIG LOTS, INC.**

(Exact name of registrant as specified in its charter)

**Ohio**  
(State or other jurisdiction of  
incorporation or organization)

**06-1119097**  
(I.R.S. Employer  
Identification No.)

**300 Phillipi Road, P.O. Box 28512, Columbus, Ohio**  
(Address of principal executive offices)

**43228-5311**  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**  
Common Shares \$0.01 par value

**Name of each exchange on which registered**  
New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None.**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No "

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes " No x

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the Common Shares held by non-affiliates of the Registrant (assuming for these purposes that all executive officers and directors are "affiliates" of the Registrant) was \$2,503,412,224 on August 2, 2008, the last business day of the Registrant's most recently completed second fiscal quarter (based on the closing price of the Registrant's Common Shares on such date as reported on the New York Stock Exchange).

The number of the Registrant's Common Shares outstanding as of March 25, 2009 was 82,569,473.

### Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for its 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## BIG LOTS, INC. FORM 10-K FOR THE FISCAL YEAR ENDED JANUARY 31, 2009

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### PART I

#### ITEM 1. BUSINESS

##### The Company

Big Lots, Inc., an Ohio corporation, through its wholly owned subsidiaries (collectively referred to herein as “we,” “us,” and “our”), is the nation’s largest broadline closeout retailer (see below for a discussion of closeout retailing). At January 31, 2009, we operated a total of 1,339 stores in 47 states. Our goal is to strengthen and build upon our leadership position in broadline closeout retailing by providing our customers with great savings on brand-name closeouts and other value-priced merchandise. You can locate us on the Internet at [www.biglots.com](http://www.biglots.com). The contents of our websites are not part of this report.

Similar to many other retailers, our fiscal year ends on the Saturday nearest to January 31, which results in some fiscal years comprised of 52 weeks and some comprised of 53 weeks. Unless otherwise stated, references to years in this report relate to fiscal years rather than calendar years. Fiscal year 2009 (“2009”) is comprised of the 52 weeks that began on February 1, 2009 and will end on January 30, 2010. Fiscal year 2008 (“2008”) is comprised of the 52 weeks that began on February 3, 2008 and ended on January 31, 2009. Fiscal year 2007 (“2007”) was comprised of the 52 weeks that began on February 4, 2007 and ended on February 2, 2008. Fiscal year 2006 (“2006”) was comprised of the 53 weeks that began on January 29, 2006 and ended on February 3, 2007. Fiscal year 2005 (“2005”) was comprised of the 52 weeks that began on January 30, 2005 and ended on January 28, 2006.

We manage our business on the basis of one segment: broadline closeout retailing. Please refer to the consolidated financial statements and related notes in this Annual Report on Form 10-K (“Form 10-K”) for our financial information. We evaluate and report overall sales and merchandise performance based on the following key merchandising categories: Consumables, Home, Furniture, Hardlines, Seasonal, and Other. The Consumables category includes the food, health and beauty, plastics, paper, chemical, and pet departments. The Home category includes the domestics, stationery, and home decorative departments. The Furniture category includes the upholstery, mattresses, ready-to-assemble, and case goods departments. Case goods consist of bedroom, dining room, and occasional furniture. The Hardlines category includes the electronics, appliances, tools, and home maintenance departments. The Seasonal category includes the lawn & garden, Christmas, summer, and other holiday departments. The Other category includes the toy, jewelry, infant accessories, and apparel departments. Other also includes the results of certain large closeout deals that are typically acquired through our alternate product sourcing operations. See note 12 to the accompanying consolidated financial statements for the net sales results of these categories for 2008, 2007, and 2006.

In May 2001, Big Lots, Inc. was incorporated in Ohio and was the surviving entity in a merger with Consolidated Stores Corporation, a Delaware corporation. By virtue of the merger, Big Lots, Inc. succeeded to all the business, properties, assets, and liabilities of Consolidated Stores Corporation.

Our principal executive offices are located at 300 Phillipi Road, Columbus, Ohio 43228, and our telephone number is (614) 278-6800. All of our operations were located within the United States of America at the end of each of the last three years.

##### Closeout Retailing

Closeout retailers purchase merchandise that generally results from production overruns, packaging changes, discontinued products, liquidations, or returns. As a result, closeout retailers generally can purchase most merchandise at lower costs and offer most merchandise at lower prices than those paid and offered by traditional discount retailers. We attempt to maximize the amount of closeout merchandise available in our stores and to offer merchandise with great value to our customers. We work closely with our vendors to obtain name brand merchandise that is easily recognizable by our customers. In addition to closeout merchandise, we stock many products on a consistent basis at our stores. This merchandise may not always be the same brand or may be off-brand because we attempt to provide our customers with merchandise at a price that represents a great value. For net sales by merchandise category and as a percent of total net sales, see the 2008 Compared To 2007 and 2007 Compared To 2006 sections of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

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## Real Estate

The following table compares the number of stores in operation at the beginning and end of each of the last five fiscal years:

	2008	2007	2006	2005	2004
Stores open at the beginning of the year	1,353	1,375	1,401	1,502	1,430
Stores opened during the year	21	7	11	73	103
Stores closed during the year	(35)	(29)	(37)	(174)	(31)
Stores open at the end of the year	1,339	1,353	1,375	1,401	1,502

As part of our real estate strategy initiated in the latter half of 2005, we closed a number of underperforming locations. Since that time, we have focused on improving profitability through managing our existing store base as opposed to through opening a high number of new stores. Over the last three years, the commercial real estate market demanded higher rent charges than our store operating model enabled us to pay and, as a result, we signed fewer new leases and opened fewer new stores than in previous years. During the latter half of 2007, the commercial real estate market began to soften and we believe we were able to favorably negotiate renewals for certain store leases which previously may have resulted in store closures. During 2008 and heading into 2009, we have been able to successfully negotiate a number of new store leases as the availability of space has improved and rental rates have begun to moderate. For additional information about our real estate strategy, see the accompanying MD&A.

The following table details our stores by state at January 31, 2009:

Alabama	28
Arizona	34
Arkansas	9
California	176
Colorado	21
Connecticut	6
Delaware	3
Florida	103
Georgia	57
Idaho	5
Illinois	34
Indiana	44
Iowa	3
Kansas	9
Kentucky	40
Louisiana	22
Maine	6
Maryland	12
Massachusetts	14
Michigan	39

Minnesota	5
Mississippi	15
Missouri	23
Montana	1
Nebraska	3
Nevada	12
New Hampshire	6
New Jersey	13
New Mexico	13
New York	45
North Carolina	61
North Dakota	1
Ohio	102
Oklahoma	16
Oregon	11
Pennsylvania	61
Rhode Island	1
South Carolina	29
Tennessee	43
Texas	113
Utah	10
Vermont	4
Virginia	36
Washington	19
West Virginia	18
Wisconsin	11
Wyoming	2
<b>Total stores</b>	<b>1,339</b>
<b>Number of states</b>	<b>47</b>

Of our 1,339 stores, 37% operate in four states: California, Texas, Ohio, and Florida, and net sales from stores in these states represent 38% of our 2008 net sales.

### Associates

At January 31, 2009, we had approximately 37,000 active associates comprised of 13,600 full-time and 23,400 part-time associates. Temporary associates hired during the fall and winter holiday selling season increased the number of associates to a peak of 41,400 in 2008. Approximately 63% of the associates employed throughout the year are employed on a part-time basis. We consider our relationship with our associates to be good, and we are not a party to any labor agreements.

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### Competition

We operate in the highly competitive retail industry and face strong sales competition from other general merchandise, discount, food, arts and crafts, and dollar store retailers. Additionally, we compete with a number of companies for retail site locations, to attract and retain quality employees, and to acquire our broad assortment of closeout merchandise from vendors.

### Purchasing

An integral part of our business is the sourcing and purchasing of quality brand-name merchandise directly from manufacturers and other vendors typically at prices substantially below those paid by traditional retailers. We believe that we have built strong relationships with many brand-name vendors and we have capitalized on our purchasing power in the closeout marketplace, including our ability to pay timely, to source merchandise that provides exceptional value to our customers. We have the ability to source and purchase significant quantities of a vendor's closeout merchandise in specific product categories and to control distribution in accordance with

vendor instructions, thus providing a high level of service and convenience to our vendors. Our sourcing channels also include bankruptcies, liquidations, and insurance claims. We supplement our traditional brand-name closeout purchases with various direct import and domestically-sourced merchandise, which represents merchandise that our customers consistently expect us to have in our stores or merchandise that we believe offers our customers a significant value. We expect that the unpredictability of the retail and manufacturing environments coupled with our dominant purchasing power position will continue to support our ability to source quality closeout merchandise at competitive prices.

We have a buying team with extensive closeout purchasing experience, which we believe has enabled us to develop successful long-term relationships with many of the largest and most recognized vendors in the United States. We believe that, as a result of these relationships and our experience and reputation in the closeout industry, many vendors offer buying opportunities to us prior to attempting to dispose of their merchandise through other channels.

Our merchandise is purchased from domestic and foreign vendors that provide us with multiple sources for each product category. In 2008, our top ten vendors accounted for 14% of total purchases (at cost) while the largest vendor accounted for approximately 3% of the aggregate.

During 2008, we purchased approximately 27% of our merchandise directly from overseas vendors, including 21% from vendors located in China. Additionally, a significant amount of our domestically-purchased merchandise is manufactured abroad. As a result, a significant portion of our merchandise supply is subject to certain risks as described further in Item 1A in this Form 10-K.

### **Warehouse and Distribution**

The majority of the merchandise sold by us is received and processed for retail sale and distributed to the retail locations from our five regional closeout distribution centers and one furniture distribution center. During 2008, we integrated the distribution of furniture out of our Columbus, Ohio furniture distribution center and into four of our regional closeout distribution centers. We believe this change allows us to more efficiently flow product to our stores primarily by reducing the transportation cost of furniture from the distribution centers to the stores because the regional distribution centers are generally located closer to the stores they service. In addition to the merchandise distribution centers, we operate warehouses in Ohio and California that distribute store fixtures and supplies. We manage the inventory levels of merchandise in our distribution centers so that we can distribute quickly and efficiently to our stores in order to maximize sales and our inventory turnover rate. We selected the locations of our distribution facilities in an attempt to minimize transportation costs and the distance from distribution facilities to our stores. Some of our vendors deliver merchandise directly to our stores. During the past three years, we implemented several warehouse, distribution, and outbound transportation initiatives, including but not limited to a vendor compliance program in 2006 that imposes strict documentation and packing requirements on shipments of merchandise that we receive in our distribution centers, an outbound transportation initiative in 2007 that led to a higher use of one-way carriers and thus a reduction in round trip carriers, the integration in 2008 of the Columbus, Ohio furniture distribution center into four of our regional distribution centers, and other transportation initiatives aimed at lowering our inbound and outbound transportation costs.

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For further discussion of our warehouses and distribution facilities and related initiatives, refer to the Warehouse and Distribution section under Item 2, Properties, in this Form 10-K and the Cost Structure section included in our Overview section under Item 7, MD&A, in this Form 10-K.

### **Advertising and Promotion**

Our brand image is an important part of our marketing program. Our principal trademarks, including the Big Lots® family of trademarks, have been registered with the U.S. Patent and Trademark Office. We use a variety of marketing approaches to promote our brand and retail position through television, internet, in-store point of purchase, and print media. The centerpiece of our marketing efforts is our television campaign which combines elements of strategic branding and promotion. These same elements are then used in all other consumer touch points. Our highly targeted media placement strategy uses national cable as the foundation of our television buys which is then supplemented with local broadcast in key markets. Our marketing program utilizes printed advertising circulars, which we design, in all markets that are served by our stores. In 2007 and 2008, we

distributed multi-page circulars covering 26 and 27 weeks, respectively. In 2009, we expect to distribute circulars covering 27 weeks. We distribute circulars through a combination of newspaper insertions and mailings. We create regional versions of these circulars to take advantage of market differences caused by product availability, climate, and customer preferences. We continue to use our website ([www.biglots.com](http://www.biglots.com)) in order to improve the efficiency of communicating with our customers using the internet. In 2006, we overhauled and re-launched our website. Our on-line customer list, which we refer to as the Buzz Club, has grown from just over one million members at the end of 2006 to over four million members at the end of 2008. The Buzz Club is an important marketing tool which allows us to communicate in a cost effective manner with our core customer base, including e-mail delivery of our circulars. In addition, store promotional materials, including in-store signage, emphasize special bargains and significant values offered to customers.

Over the past five fiscal years, total advertising expense as a percentage of total net sales ranged from 2.2% to 2.3%. In 2008, advertising expense as a percentage of total net sales was 2.2%.

### **Seasonality**

We have historically experienced, and expect to continue to experience, seasonal fluctuations, with a larger percentage of our net sales and operating profit realized in the fourth fiscal quarter. In addition, our quarterly net sales and operating profits can be affected by the timing of new store openings and store closings, the timing of television and circular advertising, and the timing of certain holidays. We historically receive a higher proportion of merchandise, carry higher inventory levels, and incur higher outbound shipping and payroll expenses in the third fiscal quarter in anticipation of increased sales activity during the fourth fiscal quarter. The fourth fiscal quarter typically includes a leveraging effect on operating results because net sales are higher and certain of our costs are fixed such as rent and depreciation.

The seasonality of our net sales and related merchandise inventory requirements influences our availability of and demand for cash or access to credit. We historically have maintained and drawn upon our credit facility to fund our working capital requirements, which typically peak slightly before or after the end of our third fiscal quarter. We historically have higher net sales, operating profits, and cash flow provided by operations in the fourth fiscal quarter which allows us to substantially repay our seasonal borrowings. In 2008, our borrowings under our \$500.0 million unsecured credit facility entered into in October 2004 ([2004 Credit Agreement](#)) were primarily driven by the execution of the \$600.0 million share repurchase program authorized by our Board of Directors in March 2007 ([March 2007 Repurchase Program](#)), the \$150.0 million share repurchase program authorized by our Board of Directors in November 2007 ([November 2007 Repurchase Program](#)), and our seasonal borrowing requirements as discussed above. In 2008, total borrowings under the 2004 Credit Agreement peaked at approximately \$300 million in early November. As of January 31, 2009, our borrowings under the 2004 Credit Agreement were \$61.7 million. We expect that borrowings will vary throughout 2009 depending on various factors, including our seasonal need to acquire merchandise inventory prior to peak selling seasons and the timing and amount of sales to our customers. The 2004 Credit Agreement terminates in October 2009. We expect to execute a new bank credit facility by the end of the second quarter of 2009. For additional information on the 2004 Credit Agreement, a discussion of our sources and uses of funds, and our efforts to execute a new bank credit facility, see the Capital Resources and Liquidity section under Item 7, MD&A, in this Form 10-K.

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### **Available Information**

We make available, free of charge, through the [Investor Relations](#) section of our website ([www.biglots.com](http://www.biglots.com)) under the [SEC Filings](#) caption, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended ([Exchange Act](#)), as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission ([SEC](#)).

In this Form 10-K, we incorporate by reference certain information from parts of our Proxy Statement for our 2009 Annual Meeting of Shareholders ([2009 Proxy Statement](#)).

In the [Investor Relations](#) section of our website ([www.biglots.com](http://www.biglots.com)) under the [Corporate Governance](#) and [SEC Filings](#) captions, the following information relating to our corporate governance may be found: Corporate Governance Standards; charters of our Board of Directors; Audit, Compensation, and Nominating/ Corporate Governance Committees; Code of Business Conduct and Ethics; Code of Ethics for Financial Professionals; Chief

Executive Officer and Chief Financial Officer certifications related to our SEC filings; the means by which shareholders may communicate with our Board of Directors; and transactions in our securities by our directors and executive officers. The Code of Business Conduct and Ethics applies to all of our associates, including our directors and our principal executive officer, principal financial officer, and principal accounting officer. The Code of Ethics for Financial Professionals applies to our Chief Executive Officer and all other Senior Financial Officers (as that term is defined therein) and contains provisions specifically applicable to the individuals serving in those positions. We intend to post amendments to and waivers from, if any, our Code of Business Conduct and Ethics (to the extent applicable to our directors and executive officers) and our Code of Ethics for Financial Professionals in the "Investor Relations" section of our website (www.biglots.com) under the "Corporate Governance" caption. We will provide any of the foregoing information without charge upon written request to our Corporate Secretary. The contents of our websites are not part of this report.

## ITEM 1A. RISK FACTORS

The statements in this section describe the major risks to our business and should be considered carefully. In addition, these statements constitute cautionary statements under the Private Securities Litigation Reform Act of 1995.

Our disclosure and analysis in this Form 10-K and in our 2008 Annual Report to Shareholders contain some forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, we also provide forward-looking statements in other materials we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "objective," "goal," "project," "intend," "plan," "should," "may," "target," "forecast," "guidance," "outlook," and similar expressions in connection with any discussion of future operating or financial performance. In particular, forward-looking statements include statements relating to future actions, future performance, or results of current and anticipated products, sales efforts, expenses, interest rates, the outcome of contingencies, such as legal proceedings, and financial results.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties, and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated, or projected. You should bear this in mind as you consider forward-looking statements.

You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date thereof. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the SEC.

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Also note that we provide the following cautionary discussion of risks, uncertainties, and assumptions relevant to our businesses. There can be no assurances that we have correctly and completely identified, assessed, and accounted for all factors that do or may affect our business, financial condition, results of operations, and liquidity. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. Additional risks not presently known to us or that we presently believe to be immaterial also may adversely impact us. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on our business, financial condition, results of operations, and liquidity. Consequently, all of the forward-looking statements are qualified by these cautionary statements, and there can be no assurance that the results or developments we anticipate will be realized or that they will have the expected effects on our business or operations. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties.

Our ability to achieve the results contemplated by forward-looking statements is subject to a number of factors, any one, or a combination, of which could materially affect our business, financial condition, results of operations, or liquidity. These factors may include, but are not limited to:



***The current conditions in the financial markets combined with the current economic conditions (including falling home prices, increased levels of unemployment, foreclosures on mortgages, bankruptcies, and reduced access to credit) are extraordinary and give rise to risks and uncertainties that may adversely affect our capital resources, financial condition, results of operations, and liquidity including, but not limited to the following:***

- Consumers may defer or elect to forego purchases in response to tighter credit and negative financial news. Reduced consumer spending may reduce our net sales, which could lower our profitability and limit our ability to convert merchandise inventories to cash.
- Fluctuating commodity prices, including but not limited to diesel fuel and other fuels used to generate power by utilities, may affect our gross profit and operating profit margins.
- The impact of these conditions on our vendors' businesses cannot be predicted. Our vendors may be negatively impacted due to insufficient availability of credit to fund their operations or insufficient demand for their products, which may affect their ability to fulfill their obligations to us.
- Our expectations regarding the demand for our merchandise may be inaccurate, which could cause us to under buy or over buy certain categories or departments of merchandise, which could result in customer dissatisfaction or excessive markdowns required to sell through the merchandise.
- The reaction of our competitors to the marketplace, including the emerging trend of liquidations occurring at bankrupt retailers, may drive our competitors, some of whom are better capitalized than us, to offer significant discounts or promotions on their merchandise, which could negatively affect our sales and profit margins.
- A downgrade in our credit rating could negatively affect our ability to access capital or increase the borrowing rates we pay.
- A further decline in the market value of our qualified defined benefit pension plan's (the "Pension Plan") investment portfolios may affect our financial condition, results of operations, and liquidity.

Additionally, many of the effects and consequences of the financial crisis and broad economic downturn are currently unknown and beyond our control; any one or all of them could potentially have a material adverse impact on our capital resources, financial condition, results of operations, and liquidity.

***If we are unable to continue to successfully execute our operating strategies, our operating performance could be significantly impacted.***

There is a risk that we will be unable to continue to meet or exceed our operating performance targets and goals in the future if our strategies and initiatives are unsuccessful. In 2008, we were able to meet or exceed many of our operating performance targets and goals that we announced in 2007. When announced, we expected

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to meet these targets and goals by 2009. As a result of achieving these targets and goals one year early, we developed an updated strategic plan in 2008 that we intend to use as our roadmap for the next three years (see the accompanying MD&A for additional information concerning our operating strategy). The new plan includes a continued focus on merchandising, real estate, and cost structure.

***If we are unable to compete effectively in the highly competitive discount retail industry, our business and results of operations may be materially adversely affected.***

The discount retail business is highly competitive. As discussed in Item 1 of this Form 10-K, we compete for customers, employees, products, real estate, and other aspects of our business with a number of other companies. Certain of our competitors have greater financial, distribution, marketing, and other resources that may be devoted to sourcing, promoting, and selling their merchandise. It is possible that increased competition or improved performance by our competitors may reduce our market share, gross margin, operating margin, and projected operating results, and may materially adversely affect our business and results of operations in other ways.

***Further declines in general economic condition, consumer spending levels, and other conditions could lead to reduced consumer demand for our merchandise thereby materially adversely affecting our revenues and gross margin.***

Our results of operations can be directly impacted by the health of the United States' economy. Our business and financial performance may be adversely impacted by current and future economic conditions, including factors that may restrict or otherwise negatively impact consumer financing, disposable income levels, unemployment levels, energy costs, interest rates, recession, inflation, the impact of natural disasters and terrorist activities, and other matters that influence consumer spending. The economies of four states (Ohio, Texas, California, and Florida) are particularly important as approximately 37% of our current stores operate in these states and 38% of our 2008 net sales occurred in these states.

***Changes by vendors related to the management of their inventories may reduce the quantity and quality of brand-name closeout merchandise available to us or may increase our cost to acquire brand-name closeout merchandise, either of which may materially adversely affect our revenues and gross margin.***

The products we sell are sourced from a variety of vendors with approximately half of our merchandise assortment being pre-planned and made according to our specifications and approximately half of our merchandise sourced on a closeout basis. The portion of our assortment that is pre-planned and made according to our specifications consists of imported merchandise (primarily furniture, seasonal, and portions of our home categories along with certain other classifications like toys) or merchandise that is re-orderable upon demand. For the closeout component of our business, we do not control the supply, design, function, availability, or cost of many of the products that we offer for sale. We depend upon the sufficient availability of closeout merchandise that we can acquire and offer at prices that represent a value to our customers, in order to meet or exceed our operating performance targets for gross margin. In addition, we rely on our vendors to provide us with quality merchandise. To the extent that certain of our vendors are better able to manage their inventory levels and reduce the amount of their excess inventory, the amount of closeout merchandise available to us could be materially reduced. If shortages or disruptions occur in the availability of closeout merchandise or if the quality of such merchandise is not acceptable to our customers or us, it is likely to have a material adverse effect on our sales and gross margin and may result in customer dissatisfaction.

***We rely on vendors located in foreign countries for significant amounts of merchandise. Additionally, a significant amount of our domestically-purchased merchandise is manufactured abroad. Our business may be materially adversely affected by risks associated with international trade.***

Global sourcing of many of the products we sell is an important factor in driving higher gross margin. During 2008, we purchased approximately 27% of our products directly from overseas vendors including 21% from vendors located in China. Our ability to find qualified vendors and to access products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced outside of the United States. Factors relating to foreign trade that are beyond our control include increased import duties, increased shipping costs, more restrictive quotas, loss of "most favored nation" trading status, currency and exchange rate fluctuations,

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work stoppages, transportation delays, economic uncertainties such as inflation, foreign government regulations, political unrest, natural disasters, war, terrorism, trade restrictions (including retaliation by the United States against foreign practices), political instability, the financial stability of vendors, merchandise quality issues, and tariffs. These and other issues affecting our vendors could materially adversely affect our business and financial performance.

***Our inability to properly manage our inventory levels and offer merchandise that our customers want may materially adversely impact our business and financial performance.***

We must maintain sufficient inventory levels to operate our business successfully. However, we also must guard against accumulating excess inventory as we seek to maintain appropriate in-stock levels. As stated above, we obtain approximately a quarter of our merchandise from vendors outside of the United States. These foreign vendors often require lengthy advance notice of our requirements in order to be able to supply products in the quantities that we request. This usually requires us to order merchandise and enter into purchase order contracts for the purchase and manufacture of such merchandise well in advance of the time these products are offered for sale. As a result, we may experience difficulty in responding to a changing retail environment, which makes us vulnerable to changes in price and in consumer preferences. In addition, even though the lead time to obtain domestically-sourced merchandise is less, we attempt to maximize our gross margin and operating efficiency by delivering proper quantities of merchandise to our stores in a timely manner. If we do not accurately anticipate

future demand for a particular product or the time it will take to replenish inventory levels, our inventory levels may not be appropriate and our results of operations may be negatively impacted.

***We may be subject to periodic litigation and regulatory proceedings, including Fair Labor Standards Act and state wage and hour class action lawsuits, which may adversely affect our business and financial performance.***

From time to time, we may be involved in lawsuits and regulatory actions, including various collective or class action lawsuits that are brought against us for alleged violations of the Fair Labor Standards Act (¶FLSA¶) and state wage and hour laws. Due to the inherent uncertainties of litigation, we may not be able to accurately determine the impact on us of any future adverse outcome of such proceedings. The ultimate resolution of these matters could have a material adverse impact on our financial condition, results of operations, and liquidity. In addition, regardless of the outcome, these proceedings could result in substantial cost to us and may require us to devote substantial resources to defend ourselves. For a description of certain current legal proceedings, see note 10 to the accompanying consolidated financial statements.

***We may be subject to risks associated with changes in laws, regulations, and accounting standards that may adversely affect our business and financial performance.***

Changes in governmental regulations and accounting standards, including new interpretations and applications of accounting standards, may have adverse effects on our financial condition, results of operations, and liquidity.

***The bankruptcy of our formerly owned KB Toys business may adversely affect our business and financial performance.***

In December 2000, we sold the KB Toys business to KB Acquisition Corporation. On January 14, 2004, KB Acquisition Corporation and certain affiliated entities (collectively ¶KB-I¶) filed for bankruptcy protection pursuant to Chapter 11 of title 11 of the United States Code. On August 30, 2005, in connection with the acquisition by an affiliate of Prentice Capital Management of majority ownership of KB-I, KB-I emerged from their January 14, 2004 bankruptcy (with the new owner of the KB Toys business referred to as ¶KB-II¶). On December 11, 2008, KB-II filed for bankruptcy protection pursuant to Chapter 11 of title 11 of the United States Code. Based on information we have received subsequent to the December 11, 2008 bankruptcy filing, we believe we may have indemnification and guarantee obligations (¶KB-II Bankruptcy Lease Obligations¶) with respect to 31 KB Toys store leases. In the fourth quarter of 2008, we accrued an estimated liability in the amount of \$5.0 million related to KB-II Bankruptcy Lease Obligations. Because of uncertainty inherent in the assumptions used to estimate this liability, our estimated liability could ultimately prove to be understated and could result in a material adverse impact on our financial condition, results of operations, and liquidity. For additional information regarding the KB Toys bankruptcies, see note 11 to the accompanying consolidated financial statements.

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***A significant decline in our operating profit and taxable income may impair our ability to realize the value of our long-lived assets and deferred tax assets.***

We are required by accounting rules to periodically assess our property and equipment and deferred tax assets for realizability and recognize an impairment loss or valuation charge, if necessary. In performing these assessments, we use our historical financial performance to indicate to us whether we have potential impairments or valuation concerns and as evidence to support our assumptions about future financial performance. If our financial performance significantly declines, it could negatively affect the results of our assessments of the recoverability of our property and equipment and our deferred tax assets. This risk is heightened as a result of the current economic conditions; however, we did not recognize a material impairment or valuation allowance upon completing the assessments necessary for the accompanying consolidated financial statements. There is a risk that if our future operating results significantly decline, it could impair our ability to recover the value of our property and equipment and deferred tax assets. Impairment or valuation charges taken against property and equipment and deferred tax assets could be material and could have a material adverse impact on our capital resources, financial condition, results of operations, and liquidity (see the Critical Accounting Policies and Estimates section of our MD&A for further discussion of our accounting policies for long-lived assets and income taxes).

***Our inability, if any, to comply with the terms of the 2004 Credit Agreement may have a material adverse effect on our capital resources, financial condition, results of operations, and liquidity.***

We have the ability to borrow funds under the 2004 Credit Agreement and we utilize this ability at various times depending on operating or other cash flow requirements. The 2004 Credit Agreement contains financial and other covenants, including, but not limited to, limitations on indebtedness, liens, and investments, as well as the maintenance of two financial ratios — a leverage ratio and a fixed charge coverage ratio. A violation of these covenants may permit the lenders to restrict our ability to further access loans and letters of credit and may require the immediate repayment of any outstanding loans. If our financial performance is not in compliance with these covenants, it may have a material adverse effect on our capital resources, financial condition, results of operations, and liquidity.

***Disruption in credit markets and volatility in equity markets may affect our ability to access sufficient funding beyond the maturity of the 2004 Credit Agreement in October 2009.***

Our primary source of liquidity is cash flows from operations and, as necessary, access to the credit markets to fund our seasonal working capital, other capital, and operating expenditures. Specifically, we have used our revolving bank credit facility under the 2004 Credit Agreement to fund peak levels of working capital, which have historically occurred late in our third fiscal quarter or early in our fourth fiscal quarter, and to make other investments in the business for which we expect a future economic benefit. The termination of the 2004 Credit Agreement in October 2009 and the reduced availability and increased costs in the current credit market may impact our current operating and investing strategies. We intend to arrange for a new revolving credit facility to replace the expiring 2004 Credit Agreement. There can be no assurance that the credit markets will not deteriorate further which could adversely impact our ability to execute a new credit facility. If we were unable to access the credit markets and secure a new credit facility, we could face business disruptions. Also, costs associated with a new credit facility could increase our costs of funding our operations.

***If we are unable to maintain or upgrade our information systems and software programs or if we are unable to convert to alternate systems in an efficient and timely manner, our operations may be disrupted or become less efficient.***

We depend on a variety of information systems for the efficient functioning of our business. We rely on certain software vendors to maintain and periodically upgrade many of these systems so that we can continue to support our business. The software programs supporting many of our systems were licensed to us by independent software developers. Costs and potential interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of our existing systems could disrupt or reduce the efficiency of our business.

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***If we are unable to successfully execute our SAP® for Retail system implementation, our operations may be disrupted or become less efficient.***

In January 2008, we announced our plans to implement SAP® for Retail solutions over the next few years. New financial systems, including general ledger, accounts payable and fixed assets, were under development during 2008 and are planned for continued development and testing in 2009. We expect to place the new financial systems in service in 2010. A new core merchandising system is planned for development in 2009 and development and testing in 2010, with plans to place the new core merchandising system in service in 2011. The implementation of these systems is expected to have a pervasive impact on our information systems and across a significant portion of our general office operations, including merchandising, technology, and finance. If we are unable to successfully implement SAP® for Retail, it may have an adverse effect on our capital resources, financial condition, results of operations, and liquidity.

***If we are unable to retain suitable store locations under favorable lease terms, our financial performance may be negatively affected.***

We lease almost all of our stores and a significant number of these leases expire or are up for renewal each year. Our strategy to improve our financial performance includes sales growth while managing the occupancy cost of each of our stores. If we are not able to negotiate favorable lease renewals, including the proper determination of which leases to renew, our financial position, results of operations, and liquidity may be negatively affected.

***If we are unable to secure customer, employee, and company data, our reputation could be damaged and we could be subject to penalties or lawsuits.***

The protection of our customer, employee, and company data is critical to us. The regulatory environment surrounding information security and privacy is increasingly demanding, with frequent imposition of new and constantly changing requirements across our business. In addition, our customers have a high expectation that we will adequately protect their personal information. A significant breach of customer, employee, or company data could damage our reputation and result in lost sales, fines, and/or lawsuits.

***If we lose key personnel, it may have a material adverse impact on our future results of operations.***

We believe that we benefit substantially from the leadership and experience of our senior executives. The loss of services of any of these individuals could have a material adverse impact on our business. Competition for key personnel in the retail industry is intense and our future success will also depend on our ability to recruit, train, and retain our senior executives and other qualified personnel.

***The price of our common shares as traded on the New York Stock Exchange may be volatile.***

Our stock price may fluctuate substantially as a result of factors beyond our control, including but not limited to, general economic and stock market conditions, risks relating to our business and industry as discussed above, strategic actions by us or our competitors, variations in our quarterly operating performance, our future sales or purchases of our common shares, and investor perceptions of the investment opportunity associated with our common shares relative to other investment alternatives.

***We also may be subject to a number of other factors which may, individually or in the aggregate, materially or adversely affect our business. These factors include, but are not limited to:***

- Events or circumstances could occur which could create bad publicity for us or for types of merchandise offered in our stores which may negatively impact our business results including sales;
- Infringement of our intellectual property, including the Big Lots trademarks, could dilute our value;
- Our ability to attract and retain suitable employees;
- Our ability to establish effective advertising, marketing, and promotional programs; and
- Other risks described from time to time in our filings with the SEC.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

##### **Retail Operations**

All of our stores are located in the United States, predominantly in strip shopping centers, and have an average store size of approximately 29,800 square feet, of which an average of 21,400 square feet is selling square feet. The average cost to open a new store in a leased facility during 2008 was approximately \$1.0 million, including cost of inventory. Except for 54 owned sites, all of our stores are leased. In 2008, we acquired, for \$8.6 million, two store properties we were previously leasing. The 54 owned stores are located in the following states:

State	Stores Owned
Arizona	3
California	39
Colorado	3

Florida	2
Louisiana	1
New Mexico	2
Ohio	1
Texas	3
<b>Total</b>	<b>54</b>

Store leases generally obligate us for fixed monthly rental payments plus the payment, in most cases, of our applicable portion of real estate taxes, common area maintenance costs (□CAM□), and property insurance. Some leases require the payment of a percentage of sales in addition to minimum rent. Such payments generally are required only when sales exceed a specified level. Our typical store lease is for an initial minimum term of five to 10 years with multiple five-year renewal options. Sixty-one store leases have sales termination clauses which can result in our exiting a location at our option if certain sales volume results are not achieved.

The following table summarizes the number of store lease expirations in each of the next five fiscal years and the total thereafter. In addition, as stated above, many of our store leases have renewal options. The table also includes the number of leases that are scheduled to expire each year that do not have a renewal option. The information includes stores with more than one lease and leases for stores not yet open. It excludes 11 month-to-month leases and 54 owned locations.

<b>Fiscal Year:</b>	<b>Expiring Leases</b>	<b>Leases Without Options</b>
2009	247	45
2010	249	45
2011	237	31
2012	182	19
2013	237	31
Thereafter	152	12

## Warehouse and Distribution

At January 31, 2009, we own or lease approximately 10.2 million square feet of distribution center and warehouse space. We operated five regional closeout distribution centers strategically placed across the United States and a furniture distribution center in California. Our regional closeout distribution centers are owned and located in Ohio, California, Alabama, Oklahoma, and Pennsylvania. In addition to these merchandise distribution centers, we own or lease warehouses in Ohio and California that distribute store fixtures and supplies. The regional closeout distribution centers utilize warehouse management technology, which enables high accuracy and efficient processing of merchandise from vendors to our retail stores. The combined output of our merchandise distribution facilities was approximately 2.5 million cartons per week in 2008. Certain vendors deliver merchandise directly to our stores. We attempt to get merchandise from our vendors to the sales floor in the most effective manner.

The number of owned and leased warehouse and distribution facilities and the corresponding square footage of the facilities by state at January 31, 2009, were as follows:

<b>State</b>				<b>Square Footage</b>		
	<b>Owned</b>	<b>Leased</b>	<b>Total</b>	<b>Owned</b>	<b>Leased</b>	<b>Total</b>
				<i>(Square footage in thousands)</i>		
Ohio	1	2	3	3,559	731	4,290
California	1	1	2	1,423	467	1,890
Alabama	1	□	1	1,411	□	1,411
Oklahoma	1	□	1	1,297	□	1,297
Pennsylvania	1	□	1	1,295	□	1,295

Total	5	3	8	8,985	1,198	10,183
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### Corporate Office

We own the facility in Columbus, Ohio that serves as our general office for corporate associates.

### ITEM 3. LEGAL PROCEEDINGS

No response is required under Item 103 of Regulation S-K. For a discussion of certain litigated matters, please refer to note 10 to the accompanying consolidated financial statements.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

### SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers at January 31, 2009 were as follows:

Name	Age	Offices Held	Officer Since
Steven S. Fishman	57	Chairman, Chief Executive Officer and President	2005
John C. Martin	58	Executive Vice President, Merchandising	2003
Brad A. Waite	51	Executive Vice President, Human Resources, Loss Prevention and Risk Management	1998
Lisa M. Bachmann	47	Senior Vice President, Merchandise Planning/Allocation and Chief Information Officer	2002
Christopher T. Chapin	45	Senior Vice President, Store Operations	2008
Robert C. Claxton	54	Senior Vice President, Marketing	2005
Joe R. Cooper	51	Senior Vice President and Chief Financial Officer	2000
Charles W. Haubiel II	43	Senior Vice President, Legal and Real Estate, General Counsel and Corporate Secretary	1999
Norman J. Rankin	52	Senior Vice President, Big Lots Capital and Wholesale	1998
Robert S. Segal	54	Senior Vice President, General Merchandise Manager	2005
Harold A. Wilson	60	Senior Vice President, Distribution and Transportation Services	1995
Timothy A. Johnson	41	Vice President, Strategic Planning and Investor Relations	2004
	43	Vice President, Controller	2005

Paul  
A.  
Schroeder

*Steven S. Fishman* became Chairman, Chief Executive Officer and President in July 2005. Prior to joining us, Mr. Fishman was the President, Chief Executive Officer and Chief Restructuring Officer of Rhodes, Inc., a furniture retailer. Rhodes, Inc. filed for bankruptcy on November 4, 2004. Mr. Fishman also was Chairman and Chief Executive Officer of Frank's Nursery & Crafts, Inc., a lawn and garden specialty retailer, which filed for bankruptcy on September 8, 2004, and President and Founder of SSF Resources, Inc., an investment and consulting firm.

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*John C. Martin* is responsible for merchandising. Prior to joining us in 2003, Mr. Martin was President of Garden Ridge Corporation, an arts and crafts retailer. Garden Ridge Corporation filed for bankruptcy on February 2, 2004. Mr. Martin also served as President and Chief Operating Officer of Michaels Stores, Inc., an arts and crafts retailer, and President, Retail Stores Division of OfficeMax Incorporated, an office supply retailer.

*Brad A. Waite* is responsible for human resources, loss prevention, risk management, and administrative services. Mr. Waite joined us in 1988 as Director of Employee Relations and has held various human resources management and senior management positions prior to his promotion to Executive Vice President in July 2000.

*Lisa M. Bachmann* is responsible for information technology, merchandise planning, and merchandise allocation functions. Ms. Bachmann joined us as Senior Vice President of Merchandise Planning, Allocation and Presentation in March 2002, and was promoted to her current role in August 2005. Prior to joining us, Ms. Bachmann was Senior Vice President of Planning and Allocation at Ames Department Stores, Inc., a discount retailer.

*Christopher T. Chapin* is responsible for store operations, including store standards, customer service, personnel development, program implementation, and execution. Prior to joining us in May 2008, Mr. Chapin was President and Chief Executive Officer at Facility Source Inc., a retail facility maintenance and management provider, and Vice President and Director of Store Operations at Limited Brands, Inc., a retailer.

*Robert C. Claxton* is responsible for marketing, merchandise presentation, and sales promotion. Prior to joining us in 2005, Mr. Claxton served as General Manager and Executive Vice President of Initiative Media, an advertising and communications company, and Chief Marketing Officer and Senior Vice President of Montgomery Ward, a retailer.

*Joe R. Cooper* was promoted to Senior Vice President and Chief Financial Officer in February 2004, and is responsible for our finance functions. He oversees treasury, tax, and investor relations, as well as the reporting, planning, and control functions of the business. Mr. Cooper joined us as Vice President of Strategic Planning and Investor Relations in May 2000. In July 2000, he assumed responsibility for the treasury department and was appointed Vice President, Treasurer.

*Charles W. Haubiel II* is responsible for our legal and real estate affairs. He was promoted to his c