

# ANNUAL REPORT



# 2017



WELCOME TO YOUR NEW COMMUNITY

# BIG LOTS!



# Who is Big Lots?

## **We're a Community Retailer.**

**Big Lots is a community retailer, which means we're dedicated to serving alongside you with friendly service, trustworthy value, and affordable solutions in every season and category — furniture, food, decor, and more! Our mission to “serve everyone like family” begins at home. That's why each one of our product solutions is meant to bring friends, family, and the community together with a price tag you'll love!**

### **JENNIFER, OUR CORE CUSTOMER**

Jennifer may feel like it's ordinary to serve others with gifts and acts of kindness, but at Big Lots, we depict her as an extraordinary woman: optimistic, generous, and someone who feels special because she is a part of a caring community devoted to something bigger than herself.

DEAR SHAREHOLDERS,

**Friendly, Trustworthy, Community... core values focused on “doing the right thing.” Simple, straightforward, and honest family values which were at the center of a transformative year at Big Lots.**



2017 was very good for our Company, our associates, and our shareholders. We made substantive and lasting improvements to our merchandise assortments, business operations, and corporate culture, and we delivered financial results consistently equal to, or better than, our earnings guidance. In September 2017, we hosted an Investor & Analyst Conference detailing our expectations for the next three years. We discussed our Strategic Planning Process (SPP) and our strategy for repositioning our brand and shared a new store format aimed at elevating the shopping experience for “Jennifer,” our core customer. Our enhanced future brand identity and Store of the Future format were the culmination of nearly 18 months of diligent, focused effort responding to a fundamental question: How does Big Lots remain relevant over the long term?

### **JENNIFER’S HIDDEN NEED AND OUR GREATEST STRENGTH**

Our journey started with an assessment as to why we exist as a Company (beyond just making money). Who is Big Lots? How are we different? And how do we intend to beat the stigma frequently associated with discount retail? To address these questions, we conducted extensive research and identified three different types of Jennifers crossing over traditional segments:

- Deal-driven Jennifer looking for great values
- Home-focused Jennifer taking care of her family and friends
- Cause-minded Jennifer wanting to give to others for a greater purpose

Regardless of household income, all Jennifers share a “love of deals,” and deals help her meet her goals. We learned Jennifer struggles with home decor and decorating — for a variety of reasons — including a lack of budget and time. But our most unique insight, one that is central to making an emotional connection with her, is Jennifer wants to feel special...and she feels *most* special when serving others, whether it be family, friends, or the community. *THIS is Jennifer’s hidden need.*

Our analysis then turned inward with an objective review of the Company’s strengths, particularly in light of the strategic changes and noteworthy accomplishments over the past five years. We have worked diligently through the three pillars (Jennifer, Associates, Shareholders) of the SPP to improve all aspects of our business, including attracting, engaging, and developing the best and brightest talent in the industry. And similar to previous years, we conducted an Annual Engagement Survey of associates in 2017 to measure and understand our progress and identify new opportunities for improvement. Our scores and assessment suggest we continue to make significant strides toward the goal of being an employer of choice with associates and engagement levels which continue to rise and are well above the retail norms. We believe our culture, where everyone is family, is OUR greatest strength. It is who we are and how we treat one another.



### OUR NEW MISSION, VISION, VALUES

Imagine our excitement when research confirmed the close alignment between Jennifer and our strategic transformation. It spurred fresh thinking in the Company around our Mission, Vision, and Values — all with Jennifer in mind — and represents an opportunity to grow with her. Our previous Mission statement of *Surprises in Every Aisle, Every Day* served us well, but it is time to evolve and reposition Big Lots as a new kind of retailer — a community retailer.

#### Mission Statement

##### We Exist to Serve Everyone Like Family

This simple, passionate mission provides a better shopping experience for Jennifer, shows value and development for our associates, and creates growth for our shareholders.

#### Vision

##### Your Second Family

Our vision is to be known as your second family — a new kind of retailer where friendly service, trustworthy value, and investing in our community is always affordable.

#### Values

##### Core Values We Strive to be Known for

- **Friendly:** Create fun and inviting experiences with friendly service, friendly environments, and friendly merchandise in a community retail store that’s easy to navigate and shop.
- **Trustworthy Value:** Exceed her expectations every time with value she can trust and quality of merchandise we expect for our own families.
- **Community:** Serve people with respect and dignity — nationally, locally, and personally.

After redefining our Mission, Vision, Values, and the traits associated with them, we circled back to our initial questions:

*How does Big Lots remain relevant over the long term?*

#### A New Kind of Retailer

Big Lots is a new kind of retailer — a community retailer. We believe “serving everyone like family” begins at home, with merchandise meant to bring friends, family, and the community together with a price tag our customers will love.

*How are we different?*

#### Brand Positioning Statement

For Jennifer and those of you who love serving others and investing in causes bigger than yourself, Big Lots is your second family: a new kind of retailer — a community retailer — serving alongside you with friendly service, trustworthy value, and affordable solutions in every season and category — furniture, food, decor, and more.

*How do we beat the retail stigma often associated with shopping discount stores?*

We must consistently embed our core traits into everything we say and do. In many ways, we’re already doing it, but now our brand identity communicates our commitment to Jennifer and a passion to serve alongside her. We believe it’s simply stated in our new brand tagline: *Serve Big. Save Lots.*



## STORE OF THE FUTURE

Our goal with a new store concept is to bring these brand principles to life in a shopping experience that's fun and engaging for Jennifer. We want to showcase our OWNABLE and WINNABLE merchandise categories of Furniture, Seasonal, Soft Home, Food, and Consumables, allowing us to stand out in a crowded, overstored retail environment.

The layout of the store is dramatically different from the traditional Big Lots by featuring Furniture front and center in the store with Seasonal and Home also at the front on either side. Pantry—which includes Food and Consumables—is located in the back of the store, but is clearly visible from the front of the store given the low-profile of our Furniture assortment. The store entryway is clean and free of product and advertising messages giving Jennifer plenty of room to enter the store and focus on her shopping plan. She will feel welcomed with our friendly atmosphere, greeted by our “Hello” wall and signage with a softer, more friendly tone. The featured colors are warm and inviting throughout the store. Responding to Jennifer's feedback, we've added more visual decorating options with furniture and home vignettes designed to highlight how our merchandise can furnish and decorate Jennifer's home. Jennifer will find every aspect of the shopping experience to be easy and more pleasing, and we are very excited with how it showcases our new brand identity. The Store of the Future will be one of the largest investments in our Company's history, and we estimate impacting nearly half of our stores over the next three years.

## COMMUNITY

Doing the right thing is at the heart of our culture. We are inspired by Jennifer every day serving her family, friends, and her community. Early in the

development of the SPP, the Big Lots Foundation was established with a goal of strengthening our philanthropic efforts and supporting the communities we serve. With the growth of our Big Lots Foundation, we serve nationally with a focus on healthcare, housing, hunger, and education, assisting many different charitable causes including Nationwide Children's Hospital, YWCA, Feeding America, the Mid-Ohio Food Bank, and the American Heart Association. We serve locally by investing in communities near our stores, distribution centers, and across the country. And we serve personally through our point-of-sale donation campaigns and through our associates who are encouraged to volunteer and who love to contribute to causes that are most important to them.

## ONE TEAM, ONE GOAL

We want to thank our associates in our stores, distribution centers, and the office here in Columbus. We are “One Team with One Goal” and together we are redefining the future of Big Lots as a new kind of community retailer—your second family. We also want to thank our shareholders for your support on behalf of the entire Big Lots organization, our Board of Directors, and our associates.

Sincerely,



**Lisa M. Bachmann**  
Chief Merchandising &  
Operating Officer



**Timothy A. Johnson**  
Chief Administrative Officer &  
Chief Financial Officer

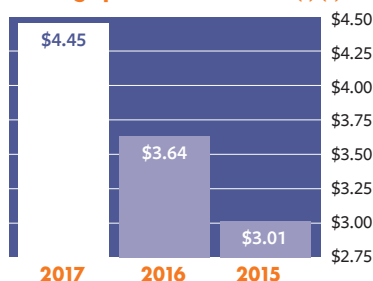


# Financial Highlights (Unaudited Adjusted Results)

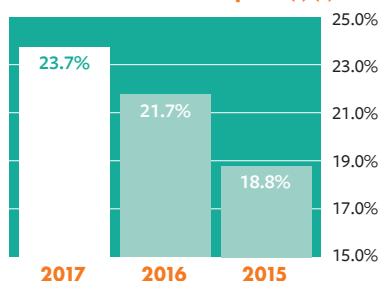
(\$ in thousands, except per share amounts)

	2017	2016	2015
<b>Earnings Data (a)</b>			
Net sales	\$ 5,270,980	\$ 5,200,439	\$ 5,190,582
Net sales increase	1.4%	0.2%	0.3%
Net income (b)	\$ 192,498	\$ 167,207	\$ 153,404
Income increase (b)	15.1%	9.0%	34.2%
Earnings per share - diluted (b)	\$ 4.45	\$ 3.64	\$ 3.01
Earnings per share - diluted increase (b)	22.3%	20.9%	46.1%
Dividends declared per share	\$ 1.00	\$ 0.84	\$ 0.76
Average diluted common shares outstanding (000's)	43,300	45,974	50,964
Gross margin - % of net sales	40.6%	40.4%	39.8%
Selling and administrative expenses - % of net sales (b)	32.8%	32.8%	32.6%
Depreciation expense - % of net sales	2.2%	2.3%	2.4%
Operating profit - % of net sales (b)	5.7%	5.2%	4.9%
Non-operating expense, including interest - % of net sales	(0.1)%	(0.1)%	(0.2)%
Net income - % of net sales (b)	3.7%	3.2%	3.0%
<b>Balance Sheet Data And Financial Ratios</b>			
Cash and cash equivalents	\$ 51,176	\$ 51,164	\$ 54,144
Inventories	872,790	858,689	849,982
Property and equipment - net	565,977	525,851	559,924
Total assets	1,651,726	1,607,707	1,640,370
Borrowings under bank credit facility	199,800	106,400	62,300
Shareholders' equity	669,587	650,630	720,470
Working capital	\$ 432,365	\$ 315,784	\$ 315,984
Current ratio	1.7	1.5	1.5
Inventory turnover	3.5	3.5	3.5
Bank borrowings to total capitalization	23.0%	14.1%	8.0%
Return on assets (a) (b)	11.8%	10.3%	9.4%
Return on invested capital (a) (b)	23.7%	21.7%	18.8%
<b>Cash Flow Data (a)</b>			
Cash provided by operating activities (c)	\$ 250,368	\$ 311,925	\$ 342,352
Cash used in investing activities (d)	(156,508)	(84,701)	(113,193)
Cash flow (e)	93,860	227,224	229,159
Cash paid for dividends	(44,671)	(38,466)	(38,530)
Cash used in share repurchase programs	\$ (150,000)	\$ (250,000)	\$ (200,000)
<b>Store Data</b>			
Stores open at end of the fiscal year	1,416	1,432	1,449
Comparable store sales increase (a)	0.4%	0.9%	1.8%
Average sales per store (a)	\$ 3,702	\$ 3,610	\$ 3,569
Gross square footage (000's)	44,638	44,570	44,914
Selling square footage (000's)	31,399	31,519	31,775
Decrease in selling square footage	(0.4)%	(0.8)%	(0.7)%
Average selling square footage per store	22,175	22,011	21,929

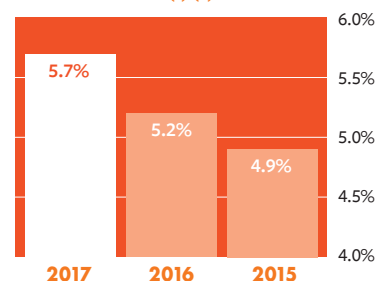
**Earnings per share - diluted (a) (b)**



**Return on invested capital (a) (b)**



**Operating profit - % of net sales (a) (b)**



(a) The results for fiscal year 2017 include 53 weeks, while the results for fiscal years 2016 and 2015 include 52 weeks.

(b) This item is shown excluding the impact of certain items for fiscal years 2017, 2016 and 2015. A reconciliation of the difference between GAAP and the non-GAAP financial measures presented in this table for fiscal years 2017, 2016 and 2015 is shown on the following page.

(c) Includes depreciation and amortization of \$106,004, \$108,315, and \$108,054 for fiscal years 2017, 2016, and 2015, respectively.

(d) Includes capital expenditures of \$142,745, \$89,782, and \$125,989 for fiscal years 2017, 2016, and 2015, respectively.

(e) Cash flow is calculated as cash provided by operating activities less cash used in investing activities.

The Unaudited Adjusted Results, which include financial measures that are not calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"), are presented in order to provide additional meaningful financial information for the periods presented. The Unaudited Adjusted Results should not be construed as an alternative to the reported results determined in accordance with GAAP. Our definition of adjusted results may differ from similarly titled measures used by other companies. While it is not possible to predict future results, our management believes that the adjusted non-GAAP information is useful for the assessment of our ongoing operations. The Unaudited Adjusted Results should be read in conjunction with our Consolidated Financial Statements and the related Notes contained in our Form 10-K for fiscal 2017.

#### FISCAL 2017

The 2017 Unaudited Adjusted Results reflect higher selling and administrative expense as a result of the adjustment to exclude a gain on insurance recoveries, and lower income tax expense as a result of the exclusion of an impact on deferred taxes, as described and reconciled below (\$ in thousands):

##### Adjustment to Exclude Gain on Insurance Recoveries

During 2017, we recognized a total of \$3,000 (\$1,851, net of tax) for insurance recoveries associated with merchandise-related legal matters, which resulted in a decrease of selling and administrative expenses.

##### Impact on Deferred Taxes Resulting from U.S. Tax Reform

In the fourth quarter of fiscal 2017, we recognized a \$4,517 change to deferred taxes resulting from the U.S. Tax Cuts and Jobs Act of 2017, which resulted in an increase to income tax expense.

#### FISCAL 2016

The 2016 Unaudited Adjusted Results reflect lower selling and administrative expense as a result of the adjustment for our legacy pension plans partially offset by a gain on sale of real estate, as described and reconciled below (\$ in thousands):

##### Adjustment To Exclude Pension Costs

During 2016, we recognized a total of \$27,766 (\$16,790, net of tax) for costs associated with our decision to terminate both our qualified and non-qualified defined benefit pension plans, including net periodic benefit costs, settlement charges and professional fees in support of the actions to facilitate the plan terminations, which resulted in an increase of selling and administrative expenses.

##### Gain On Sale Of Real Estate

In the fourth quarter of fiscal 2016, we recognized a \$3,823 gain on the sale of real estate (\$2,411, net of tax) related to a Company-owned and operated store in California which resulted in a decrease of selling and administrative expenses.

#### FISCAL 2015

The 2015 Unaudited Adjusted Results reflect lower selling and administrative expense as a result of adjustments for our legacy pension plans and a loss contingency, as described and reconciled below (\$ in thousands):

##### Adjustment to Exclude Pension Costs

During 2015, we recognized a total of \$12,932 (\$7,820, net of tax) for costs associated with our decision to terminate both our qualified and non-qualified defined benefit pension plans, including net periodic benefit costs, settlement charges and professional fees in support of the actions to facilitate the plan terminations, which resulted in an increase of selling and administrative expenses.

##### Adjustment To Exclude Loss Contingency

In fiscal 2015, we recorded a \$4,487 charge (\$2,711, net of tax) related to a loss contingency associated with merchandise-related legal matters which resulted in an increase of selling and administrative expenses.

	Reported (GAAP)		Adjustment to exclude gain on insurance recoveries	Impact on deferred taxes resulting from U.S. tax reform	Unaudited Adjusted Results (non-GAAP)	
FISCAL YEAR 2017 (\$ in thousands, except per share amounts )						
Selling and administrative expenses	\$ 1,723,996	32.7%	\$ 3,000	\$ -	\$ 1,726,996	32.8%
Operating profit	301,353	5.7	(3,000)	-	298,353	5.7
Income tax expense	105,522	2.0	(1,149)	(4,517)	99,856	1.9
Net income	\$ 189,832	3.6%	\$ (1,851)	\$ 4,517	\$ 192,498	3.7%
Earnings per common share - diluted	\$ 4.38		\$ (0.04)	\$ 0.10	\$ 4.45	

	Reported (GAAP)		Adjustment to exclude pension costs	Gain on sale of real estate	Unaudited Adjusted Results (non-GAAP)	
FISCAL YEAR 2016 (\$ in thousands, except per share amounts )						
Selling and administrative expenses	\$ 1,730,956	33.3%	\$ (27,766)	\$ 3,823	\$ 1,707,013	32.8%
Operating profit	248,003	4.8	27,766	(3,823)	271,946	5.2
Income tax expense	91,471	1.8	10,976	(1,412)	101,035	1.9
Net income	\$ 152,828	2.9%	\$ 16,790	\$ (2,411)	\$ 167,207	3.2%
Earnings per common share - diluted	\$ 3.32		\$ 0.37	\$ (0.05)	\$ 3.64	

	Reported (GAAP)		Adjustment to exclude pension costs	Adjustment to exclude loss contingency	Unaudited Adjusted Results (non-GAAP)	
FISCAL YEAR 2015 (\$ in thousands, except per share amounts )						
Selling and administrative expenses	\$ 1,708,499	32.9%	\$ (12,932)	\$ (4,487)	\$ 1,691,080	32.6%
Operating profit	235,787	4.5	12,932	4,487	253,206	4.9
Income tax expense	83,977	1.6	5,112	1,776	90,865	1.8
Net income	\$ 142,873	2.8%	\$ 7,820	\$ 2,711	\$ 153,404	3.0%
Earnings per common share - diluted	\$ 2.80		\$ 0.15	\$ 0.05	\$ 3.01	

# Directors & Executives



## BOARD OF DIRECTORS

### Jeffrey P. Berger

former President & Chief Executive Officer  
Heinz North America Foodservice;  
former Executive Vice President  
Global Foodservice / H. J. Heinz Company

### David J. Campisi\*

Chief Executive Officer & President  
Big Lots, Inc.

### James R. Chambers

Chairman of the Board  
Big Lots, Inc.;  
former President & Chief Executive Officer  
Weight Watchers International, Inc.

### Marla C. Gottschalk

former Chief Executive Officer  
Pampered Chef, Ltd.

### Cynthia T. Jamison

former Chief Financial Officer  
AquaSpy, Inc.

### Philip E. Mallott

former Vice President & Chief Financial Officer  
Intimate Brands, Inc.

### Nancy A. Reardon

former Senior Vice President &  
Chief Human Resources and  
Communications Officer  
Campbell Soup Company

### Wendy L. Schoppert

former Executive Vice President &  
Chief Financial Officer  
Sleep Number Corporation

### Russell E. Solt

former Executive Vice President &  
Chief Financial Officer  
West Marine, Inc.

## CHIEF EXECUTIVE OFFICER & PRESIDENT

### David J. Campisi\*

## EXECUTIVE VICE PRESIDENTS

### Lisa M. Bachmann

Chief Merchandising &  
Operating Officer

### Timothy A. Johnson

Chief Administrative Officer &  
Chief Financial Officer

### Michael A. Schlonsky

Human Resources &  
Store Operations

## SENIOR VICE PRESIDENTS

### Michelle D. Christensen

General Merchandise Manager

### Stephen M. Haffer

Chief Customer Officer

### Craig A. Hart

Planning, Allocation &  
Replenishment

### Stella M. Keane

Talent Management

### Nicholas E. Padovano

Store Operations

### Ronald A. Robins, Jr.

General Counsel &  
Corporate Secretary

### Carlos V. Rodriguez

Distribution &  
Transportation Services

### Paul A. Schroeder

Controller & Treasurer

### Stewart W. Wenerstrom

Chief Information Officer

### Martha A. Withers - Hall

General Merchandise Manager

\*David J. Campisi retired as our CEO and President and as a director effective as of April 16, 2018.





Big Lots, Inc.  
4900 E. Dublin-Granville Road  
Columbus, Ohio 43081

April 20, 2018

Dear Big Lots' Shareholder:

We cordially invite you to attend the 2018 Annual Meeting of Shareholders of Big Lots, Inc. The Annual Meeting will be held at our corporate offices located at 4900 E. Dublin-Granville, Road, Columbus, Ohio, on May 31, 2018, beginning at 9:00 a.m., Eastern Time.

The following pages contain the 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.

Your vote is important. Whether or not you plan to attend the Annual Meeting, we urge you to vote as soon as possible. Voting by proxy in any of the ways described in the Proxy Statement will not prevent you from attending the Annual Meeting or voting in person.

Thank you for your ongoing support of, and continued interest in, Big Lots, Inc.

Respectfully submitted,

JAMES R. CHAMBERS  
*Chairman*





## NOTICE OF 2018 ANNUAL MEETING OF SHAREHOLDERS

**Thursday, May 31, 2018**

**9:00 a.m. Eastern Time**

**4900 E. Dublin-Granville Road, Columbus, Ohio**

We are pleased to invite you to the 2018 Annual Meeting of Shareholders of Big Lots, Inc. The meeting will be held at our corporate offices located at 4900 E. Dublin-Granville Road, Columbus, Ohio, on May 31, 2018, beginning at 9:00 a.m., Eastern Time, for the following purposes:

1. To elect as directors the eight nominees named in our accompanying Proxy Statement;
2. To approve, on an advisory basis, the compensation of our named executive officers;
3. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2018; and
4. To transact such other business as may properly come before the Annual Meeting.

Only shareholders of record at the close of business on the record date, April 2, 2018, are entitled to notice of and to vote at the Annual Meeting and any postponement or adjournment thereof. Further information regarding voting rights and matters to be voted upon is presented in the accompanying Proxy Statement.

By Order of the Board of Directors,

Ronald A. Robins, Jr.

*Senior Vice President, General Counsel and Corporate Secretary*

April 20, 2018

Columbus, Ohio

**Your vote is important. Shareholders are urged to vote online. If you attend the Annual Meeting, you may revoke your proxy and vote in person if you wish, even if you have previously submitted a proxy.**

**BIG LOTS, INC.**  
**PROXY STATEMENT**  
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# PROXY STATEMENT

The Board of Directors (“Board”) of Big Lots, Inc., an Ohio corporation (“we,” “us,” “our” and “Big Lots”), is furnishing you this Proxy Statement to solicit proxies for use at the 2018 Annual Meeting of Shareholders to be held on May 31, 2018 (“Annual Meeting”). The Annual Meeting will be held at our corporate offices located at 4900 E. Dublin-Granville Road, Columbus, Ohio at 9:00 a.m., Eastern Time.

On or about April 20, 2018, we began mailing to our shareholders of record at the close of business on April 2, 2018 a Notice of Internet Availability containing instructions on how to access the Notice of Annual Meeting of Shareholders, this Proxy Statement and our Annual Report to Shareholders for our fiscal year ended February 3, 2018 (“fiscal 2017”).

## 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:

- (1) elect eight directors to the Board;
- (2) approve, on an advisory basis, the compensation of our named executive officers, as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and the narrative discussion accompanying the tables (“say-on-pay vote”);
- (3) ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for our fiscal year ending February 2, 2019 (“fiscal 2018”); and
- (4) transact such other business as may properly come before the Annual Meeting.

### Shareholder Voting Rights

Only those shareholders of record at the close of business on April 2, 2018, the record date for the Annual Meeting, are entitled to receive notice of, and to vote at, the Annual Meeting. At the record date, we had outstanding 42,182,744 common shares, \$0.01 par value per share. Each of the outstanding common shares entitles the holder thereof to one vote on each matter to be voted upon at the Annual Meeting or any postponement or adjournment thereof. The holders of our common shares have no cumulative voting rights in the election of directors. All voting at the Annual Meeting will be governed by our Amended Articles of Incorporation, our Code of Regulations and the Ohio General Corporation Law.

### Registered Shareholders and Beneficial Shareholders

If your common shares are registered in your name directly with our transfer agent, Computershare Investor Services, LLC, you are considered a holder of record (which we also refer to as a registered shareholder). If you hold our common shares in a brokerage account or through a bank or other holder of record, you are considered the beneficial shareholder of the common shares, which shares are often referred to as being held in “street name.”

### Internet Availability of Proxy Materials

In accordance with rules adopted by the Securities and Exchange Commission (“SEC”), instead of mailing a printed copy of our proxy materials to each shareholder of record, we are permitted to furnish our proxy materials, including the Notice of Annual Meeting of Shareholders, this Proxy Statement and our Annual Report to Shareholders, by providing access to such documents on the Internet. Generally, shareholders will not receive printed copies of the proxy materials unless they request them. We believe furnishing proxy materials to our shareholders on the Internet will allow us to provide our shareholders with the information they need, while reducing the costs of delivery of our proxy materials and the environmental impact of the Annual Meeting.

A Notice of Internet Availability that provides instructions for accessing our proxy materials on the Internet was mailed directly to registered shareholders. The Notice of Internet Availability also provides instructions regarding how registered shareholders may vote their common shares on the Internet. Registered shareholders who prefer to receive a paper or email copy of our proxy materials should follow the instructions provided in the Notice of Internet Availability for requesting such copies.

A notice that directs our beneficial shareholders to the website where they can access our proxy materials should be forwarded to each beneficial shareholder by the broker, bank or other holder of record that is considered the registered shareholder with respect to the common shares of the beneficial shareholder. Such broker, bank or other holder of record should also provide to the beneficial shareholders instructions on how the beneficial shareholders may request a paper or email copy of our proxy materials. Beneficial shareholders have the right to direct their broker, bank or other holder of record on how to vote their common shares by following the voting instructions they receive from their broker, bank or other holder of record.

To enroll in the electronic delivery service for future shareholder meetings, use your Notice of Internet Availability (or proxy card, if you received printed copies of the proxy materials) to register online at [www.proxyvote.com](http://www.proxyvote.com) and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

## Attendance at the Annual Meeting

All of our 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., Eastern Time, and the Annual Meeting will begin at 9:00 a.m., Eastern Time. If you attend the Annual Meeting, you may be asked to present valid photo identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting. If you hold your common shares as a beneficial shareholder, you may also be asked to present a copy of a brokerage or bank statement reflecting your beneficial ownership of our common shares as of the record date.

## How to Vote

### Registered Holders

After receiving the Notice of Internet Availability (or proxy card, if you received printed copies of the proxy materials), registered shareholders are urged to visit [www.proxyvote.com](http://www.proxyvote.com) to access our proxy materials. You will have the opportunity to vote your common shares online at [www.proxyvote.com](http://www.proxyvote.com) until May 30, 2018 at 11:59 p.m., Eastern Time. When voting online, you must follow the instructions posted on the website and you will need the control number included on your Notice of Internet Availability (or proxy card, if applicable). If, after receiving the Notice of Internet Availability, you request (via toll-free telephone number, e-mail or online) that we send you paper or electronic copies of our proxy materials, you may vote your common shares by completing, dating and signing the proxy card included with the materials and returning it in accordance with the instructions provided. Your common shares will be voted as you direct if (1) you properly complete your proxy online, (2) you complete, date, sign and return your proxy card no later than 11:59 p.m., Eastern Time, on May 30, 2018 or (3) you are a registered shareholder, attend the Annual Meeting and deliver your completed proxy card in person.

A registered shareholder may revoke a proxy at any time before it is exercised by filing with our Corporate Secretary a written notice of revocation or duly executing and delivering to the Company a proxy bearing a later date. A registered shareholder may also revoke a proxy by attending the Annual Meeting and giving written notice of revocation to the secretary of the meeting. Attendance at the Annual Meeting will not by itself revoke a previously granted proxy.

### Beneficial Owners

Beneficial shareholders should follow the procedures and directions set forth in the materials they receive from the broker, bank or other holder of record that is the registered holder of their common shares to instruct such registered holder how to vote those common shares or revoke previously given voting instructions. Please contact your broker, bank or other holder of record to determine the applicable deadlines. Beneficial shareholders who wish to vote at the Annual Meeting will need to obtain and provide to the secretary of the meeting a completed form of proxy from the broker, bank or other holder of record that is the registered holder of their common shares.

Brokers, banks and other holders of record who hold common shares for beneficial owners in street name may vote such common shares on "routine" matters (as determined under New York Stock Exchange ("NYSE") rules), such as Proposal Three, without specific voting instructions from the beneficial owner of such common shares. Such brokers, banks and other holders of record may not, however, vote such common shares on "non-routine" matters, such as Proposal One and

Proposal Two, without specific voting instructions from the beneficial owner of such common shares. Proxies submitted by such brokers, banks and other holders of record that have not been voted on “non-routine” matters are referred to as “broker non-votes.” Broker non-votes will not be counted for purposes of determining the number of common shares necessary for approval of any matter to which broker non-votes apply (i.e., broker non-votes will have no effect on the outcome of such matter).

## Householding

SEC rules allow multiple shareholders residing at the same address the convenience of receiving a single copy of the Annual Report to Shareholders, Proxy Statement and Notice of Internet Availability if they consent to do so (“householding”). Householding is permitted only in certain circumstances, including when you have the same last name and address as another shareholder. If the required conditions are met, and SEC rules allow, your household may receive a single copy of the Annual Report to Shareholders, Proxy Statement and Notice of Internet Availability. Upon request, we will promptly deliver a separate copy of the Annual Report to Shareholders, Proxy Statement and Notice of Internet Availability, as applicable, to a shareholder at a shared address to which a single copy of the document(s) was delivered. Such a request should be made in the same manner as a revocation of consent for householding.

You may revoke your consent for householding at any time by contacting Broadridge Financial Solutions, Inc. (“Broadridge”), either by calling 1-866-540-7095, or by writing to: Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. You will be removed from the householding program within 30 days of receipt of your instructions at which time you will be sent separate copies of the Annual Report to Shareholders, Proxy Statement and Notice of Internet Availability.

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

## Board’s Recommendations

Subject to revocation, all proxies that are properly completed and timely received will be voted in accordance with the instructions contained therein. If no instructions are given (excluding broker non-votes), the persons named as proxy holders will vote the common shares in accordance with the recommendations of the Board. The Board’s recommendations are set forth together with the description of each proposal in this Proxy Statement. In summary, the Board recommends a vote:

1. FOR the election of its nominated slate of directors (see Proposal One);
2. FOR the approval, on an advisory basis, of the compensation of our named executive officers, as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K, including the Compensation Disclosure and Analysis, compensation tables and the narrative discussion accompanying the tables (see Proposal Two); and
3. FOR the ratification of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2018 (see Proposal Three).

If any other matter properly comes before the Annual Meeting, or if a director nominee named in this Proxy Statement is unable to serve or for good cause will not serve, the proxy holders will vote on such matter or for a substitute nominee as recommended by the Board.

## 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 and permit us to conduct our 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 common shares considered to be present at the Annual Meeting for purposes of establishing a quorum.

## Vote Required to Approve a Proposal

### **Proposal One**

Our Amended Articles of Incorporation impose a majority vote standard in uncontested elections and our Corporate Governance Guidelines contain a majority vote policy applicable to uncontested elections of directors. Specifically, Article Eighth of our Amended Articles of Incorporation provides that if a quorum is present at the Annual Meeting, a director

nominee in an uncontested election will be elected to the Board if the number of votes cast for such nominee's election exceeds the number of votes cast against and/or withheld from such nominee's election. In all director elections other than uncontested elections, plurality voting will apply and the director nominees receiving the greatest number of votes cast for their election will be elected as directors. An "uncontested election" generally means an election of directors at a meeting of shareholders in which the number of nominees for election does not exceed the number of directors to be elected.

A properly executed proxy marked as withholding 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 and will have the same effect as a vote against the nominee or nominees. Broker non-votes will not be considered votes cast for or against or withheld from a director nominee's election at the Annual Meeting.

See the "Governance – Majority Vote Standard and Policy" section of this Proxy Statement for more information about our majority vote policy and standard.

### **Other Matters**

For purposes of Proposal Two and Proposal Three, 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. The votes received with respect to Proposal Two and Proposal Three are advisory and will not bind the Board or us. A properly executed proxy marked "abstain" with respect to Proposal Two and Proposal Three will not be voted with respect to such matter, although it will be counted for purposes of determining the number of common shares necessary for approval of Proposal Two and Proposal Three. Accordingly, an abstention will have the same effect as a vote against Proposal Two and Proposal Three. 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 recommendation of the Board.



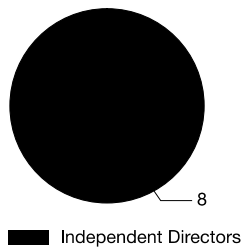
## PROPOSAL ONE: ELECTION OF DIRECTORS

The Board has nominated the eight persons set forth in the table below for election as directors as the Annual Meeting. At the Annual Meeting, the common shares represented by proxies will be voted, unless otherwise specified, for the election of the eight director nominees named below. Proxies cannot be voted at the Annual Meeting for more than eight persons. 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.

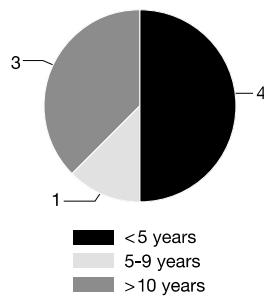
Pursuant to our Code of Regulations, the Board is comprised of nine directors. As previously disclosed, David J. Campisi retired as our Chief Executive Officer (“CEO”) and President and as a director on April 16, 2018. The Board is in the process of identifying and evaluating qualified candidates to be our next CEO and currently anticipates that the individual selected as the successor CEO will be appointed to the Board. We do not anticipate that this process will be completed prior to the Annual Meeting.

Set forth below is certain information related to the nominees.

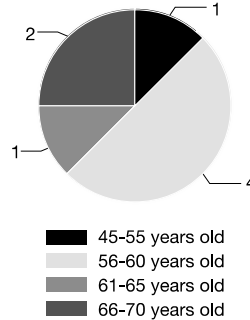
**Director Independence**



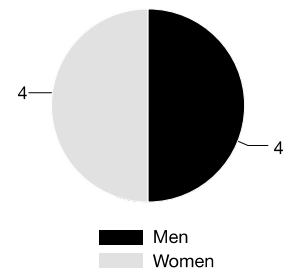
**Tenure**



**Age**



**Gender Diversity**



**JEFFREY P. BERGER**

Mr. Berger is the former Executive Vice President, Global Foodservice of H.J. Heinz Company (food manufacturer and marketer), and President and Chief Executive Officer of Heinz North America Foodservice (food manufacturer and marketer).

**Qualifications:** Mr. Berger’s qualifications to serve on the Board include his 14 years of experience as a chief executive of a multibillion dollar company, his service on another public company board and his qualification as an “audit committee financial expert,” as defined by applicable SEC rules.

**Other Directorships:** GNC Holdings, Inc. (health and wellness specialty retailer) where he is a member of the nominating and corporate governance committee and a member of the audit committee.

Age: 68  
 Director since: 2006  
 Committees:  
 • Compensation  
 • Nominating / Corporate Governance



Age: 60  
Director since: 2012  
Committees:  
• None

### **JAMES R. CHAMBERS**

Chairman of the Board of Big Lots, Inc.

Mr. Chambers is the former President and Chief Executive Officer and director of Weight Watchers International, Inc. (weight management services provider).

Mr. Chambers previously served as President of the US Snacks and Confectionery business unit and General Manager of the Immediate Consumption Channel of Kraft Foods Inc. (food manufacturer). Mr. Chambers also served as President and CEO of Cadbury Americas (confectionery manufacturer), and as the President and Chief Executive Officer of Remy Amerique, Inc. (spirits manufacturer). Prior to his employment with Remy Amerique, Inc., Mr. Chambers served as the Chief Executive Officer of Paxonix, Inc. (online branding and packaging process solutions business), the Chief Executive Officer of Netgrocer.com (online grocery retailer), and the Group President of Information Resources, Inc. (global market research provider). Mr. Chambers spent the first 17 years of his career at Nabisco (food manufacturer), where he held leadership roles in sales, distribution, marketing and information technology, culminating in the role of President, Refrigerated Foods. Mr. Chambers previously served as a director of B&G Foods (food manufacturer) for seven years where he served on the Nominating and Governance Committee and served on the Compensation Committee and as a director of Weight Watchers International, Inc.

**Qualifications:** Mr. Chambers' qualifications to serve on the Board include his extensive cross-functional packaged goods industry experience, 20-year track record in general management, his chief executive experience and his experience serving on the boards of other public companies.

**Other Directorships:** TIAA Board of Trustees, where he chairs the audit committee and serves on the human resources and risk and compliance committees.



Age: 57  
Director since: 2015  
Committees:  
• Audit  
• Compensation  
• Special Litigation  
(Chair)

### **MARLA C. GOTTSCHALK**

Ms. Gottschalk is the former Chief Executive Officer of The Pampered Chef Ltd. (marketer of kitchen tools, food products and cookbooks), where she also previously served as President and Chief Operating Officer.

Ms. Gottschalk has also served as Senior Vice President of Financial Planning and Investor Relations for Kraft Foods, Inc. (food manufacturer), where she also previously served as Executive Vice President and General Manager of the Post Cereal division and Vice President of Marketing and Strategy of the Kraft Cheese division.

**Qualifications:** Ms. Gottschalk's qualifications to serve on the Board include her extensive experience in operations and strategic management, her qualification as an "audit committee financial expert," as defined by applicable SEC rules, her expertise in the food industry, her chief executive experience and her experience serving on the boards of other public companies.

**Other Directorships:** Potbelly Corporation (food retailer) where she is a member of the compensation committee and the audit committee, Underwriter Laboratories, where she is chair of the compensation committee and serves on the nominating and governance committee, and Ocean Spray Cranberries, Inc., where she serves on the nominating and governance committee and the grower committee.



Age: 58  
 Director since: 2015  
 Committees:  
 • Audit  
 • Nominating /Corporate Governance (Chair)  
 • Special Litigation

**CYNTHIA T. JAMISON**

Ms. Jamison served as Chief Financial Officer or Chief Operating Officer of several companies during her tenure from 1999-2009 at Tatum, LLC, an executive services firm. From 2005-2009, she led the CFO services practice and was a member of the firm’s operating committee. After retiring from Tatum, Ms. Jamison subsequently served as Chief Financial Officer of AquaSpy, Inc. from 2009 -2012 (provider of soil moisture sensors to monitor soil moisture levels).

Ms. Jamison has also served as Chief Financial Officer of Chart House Enterprises (food retailer) and held various financial positions at Allied Domecq Retailing USA, Kraft General Foods and Arthur Anderson LLP. Ms. Jamison previously served as a director of B&G Foods, Inc. (food manufacturer and distributor) where she served as chair of the audit committee. She held past board seats at Horizon Organic Holdings and Cellu Tissue, Inc.

**Qualifications:** Ms. Jamison’s qualifications to serve on the Board include her extensive experience in financial and accounting matters, including public company reporting, as well as strategy and capitalization expertise, her qualification as an “audit committee financial expert,” as defined by applicable SEC rules and her key management, leadership, financial and strategic planning, corporate governance and public company executive and board experience.

**Other Directorships:** Tractor Supply Company (farm and ranch retailer) where she serves as chairman, Darden, Inc. (food retailer) where she serves as chair of the audit committee and a member of the compensation committee and Office Depot, Inc. (office supply retailer) where she is chair of the audit committee and a member of the compensation committee.



Age: 60  
 Director since: 2003  
 Committees:  
 • Audit (Chair)  
 • Compensation

**PHILIP E. MALLOTT**

Mr. Mallott is the former Vice President and Chief Financial Officer of Intimate Brands, Inc. (intimate apparel and beauty product retailer). Mr. Mallott previously served as a director of Tween Brands, Inc. (clothing retailer). Mr. Mallott is also the former chairman of the board of Big Lots, Inc.

**Qualifications:** Mr. Mallott’s qualifications to serve on the Board include his qualification as an “audit committee financial expert,” as defined by applicable SEC Rules, his experience as a certified public accountant, his service on the boards of other public companies and charitable organizations, and his experience in leadership roles with other retailers.

**Other Directorships:** GNC Holdings, Inc. (health and wellness specialty retailer) where he is chair of the audit committee and a member of the compensation committee.



**NANCY A. REARDON**

Ms. Reardon is the former Senior Vice President and Chief Human Resources and Communications Officer of Campbell Soup Company (food manufacturer).

Additionally, Ms. Reardon served as Executive Vice President of Human Resources for Comcast Cable Communications, Inc. (telecommunications provider). Prior to that, Ms. Reardon served as Partner and Executive Vice President, Human Resources and Corporate Affairs for Borden Capital Management Partners where she developed financial and merger and acquisition skills through her involvement in multiple transactions for a portfolio of operating companies. Ms. Reardon previously served as a director of Warnaco Group, Inc. (apparel retailer) where she served as a member of the audit committee and the compensation committee.

Age: 65  
Director since: 2015  
Committees:  
• Compensation (Chair)  
• Nominating /Corporate Governance

**Qualifications:** Ms. Reardon's qualifications to serve on the Board include her extensive experience in senior management roles, her experience on the boards of other private and charitable organizations, her experience leading human resources departments and in communications and public affairs and her leadership skills.

**Other Directorships:** Signet Jewelers Limited (jewelry retailer) where she serves on the compensation committee.



**WENDY L. SCHOPPERT**

Ms. Schoppert is the former Executive Vice President and Chief Financial Officer of Sleep Number Corporation (bedding retailer and manufacturer).

Prior to joining Sleep Number, Ms. Schoppert led US Bank's Private Asset Management team and served as Head of Product, Marketing & Corporate Development for the bank's asset management division. Ms. Schoppert began her career in the airline industry, serving in various financial, strategic and general management leadership positions at American Airlines, Northwest Airlines and America West Airlines.

Age: 51  
Director since: 2015  
Committees:  
• Audit  
• Nominating /Corporate Governance  
• Special Litigation

**Qualifications:** Ms. Schoppert's qualifications to serve on the Board include her qualification as an "audit committee financial expert," as defined by applicable SEC Rules, her diverse experience across marketing, digital, and information technology, and her significant financial leadership and expertise with respect to the oversight of financial reporting and disclosure for public companies.

**Other Directorships:** The Hershey Company (a global confectionery company) where she serves on the audit committee, Bremer Financial Corporation (a financial services firm) where she serves on the audit and compensation committees and Gaia, Inc. (provider of digital video streaming services) where she serves as chair of the audit committee.



**RUSSELL E. SOLT**

Mr. Solt is the former Director of Investor Relations of West Marine, Inc. (boating supplies and accessories specialty retailer) where he previously served as Executive Vice President and Chief Financial Officer.

Additionally, Mr. Solt previously served as the Chief Financial Officer of Venture Stores, Inc. (discount retailer) and Williams-Sonoma, Inc. (home furnishing and cookware specialty retailer).

Age: 70  
Director since: 2003  
Committees:  
• Audit  
• Compensation

**Qualifications:** Mr. Solt's qualifications to serve on the Board include his experience as a certified public accountant and as the Chief Financial Officer of other publicly-traded retailers, his background in investor relations and his qualification as an "audit committee financial expert," as defined by applicable SEC Rules.

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH NOMINEE LISTED ABOVE.**

## GOVERNANCE

The following table sets forth some of our key governance policies and practices we have implemented to advance the objectives and long term interests of our shareholders:

<b>Governance Highlights</b>	
<ul style="list-style-type: none"> <li>• <i>All of our current directors are independent</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>4 of our 8 independent directors are women</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Annual election of all directors and Majority Voting Standard</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Annual shareholder engagement</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Proxy Access for our shareholders</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>We have a non-executive chairman</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Executive session of non-employee directors at all board meetings</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Mandatory Board Retirement at age 72</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>All committees composed of independent directors</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Limit of 4 public company directorships Board members may hold</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Annual board and committee self-evaluations</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Director orientation and continuing education</i></li> </ul>

### **Board Leadership and Independent Chairman of the Board**

The Board is currently comprised of the individuals identified in Proposal One. Each of the director nominees is an independent (as defined by the applicable NYSE rules) non-employee director (“non-employee directors”). Mr. Chambers, an independent director, serves as non-executive Chairman of the Board (“Chairman”). The Board believes it should have the flexibility to establish a leadership structure that works best for us at a particular time, and it reviews that structure from time to time, including in the context of a change in leadership. The Chairman plans the agendas for meetings of the Board, chairs the Board meetings, and is responsible for briefing our CEO, as needed, concerning executive sessions of the independent members of the Board. The Chairman also determines when additional meetings of the Board are needed. Additionally, the Chairman communicates informally with other directors between meetings of the Board to foster free and open dialogue among directors.

### **Board Meetings in Fiscal 2017**

The Board held six meetings during fiscal 2017. During fiscal 2017, each director attended at least 75% of the aggregate of the total number of meetings of the Board and the committees on which he or she served (in each case, held during the periods that he or she served). All of our directors attended our 2017 annual meeting of shareholders. In addition, the non-employee directors met in executive session at each of the Board’s meetings and an additional four times during fiscal 2017.

### **Role of the Board’s Committees**

The Board has standing Audit, Compensation and Nominating / Corporate Governance Committees. Each of these committees reports its activities to the Board. In fiscal 2016, the Board formed a non-standing Special Litigation Committee.

### **Audit Committee**

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibility with respect to:

- (1) the integrity of the financial reports and other financial information provided by us to our shareholders and others;
- (2) our compliance with legal and regulatory requirements;
- (3) the engagement of our independent registered public accounting firm and the evaluation of the firm’s qualifications, independence and performance;
- (4) the performance of our system of internal controls;
- (5) the oversight of the performance of the internal audit function;

- (5) our audit, accounting and financial reporting processes generally; and
- (6) the evaluation of enterprise risk issues.

All members of the Audit Committee are independent as required by the Audit Committee's charter and by the applicable NYSE and SEC rules. The Board has determined that each member of the Audit Committee is "financially literate," as required by NYSE rules, and each of Messrs. Mallott and Solt and Mrs. Gottschalk, Jamison and Schoppert is an "audit committee financial expert," as defined by applicable SEC rules.

The functions of the Audit Committee are further described in its charter, which is available in the Investor Relations section of our website ([www.biglots.com](http://www.biglots.com)) under the "Corporate Governance" caption. The Audit Committee met twelve times during fiscal 2017.

### ***Compensation Committee***

The Compensation Committee discharges the responsibilities of the Board relating to the administration of our compensation programs, including the compensation program for our management leadership team ("Leadership Team"). Our Leadership Team is comprised of the current executives named in the Summary Compensation Table ("named executive officers") and other executives holding the office of senior vice president.

The responsibilities of the Compensation Committee include:

- (1) establishing our general compensation philosophy;
- (2) overseeing the development of our compensation programs;
- (3) approving goals and objectives for the incentive compensation awarded to the Leadership Team;
- (4) reviewing and recommending to the Board the other compensation for our CEO and the Leadership Team;
- (5) in coordination with the Nominating / Corporate Governance Committee, monitoring issues associated with CEO succession planning and management development;
- (6) administering our compensation programs; and
- (7) reporting on the entirety of the executive compensation program to the Board.

All members of the Compensation Committee are independent as required by the Committee's charter and NYSE rules.

The functions of the Compensation Committee are further described in its charter, which is available in the Investor Relations section of our website ([www.biglots.com](http://www.biglots.com)) under the "Corporate Governance" caption. The Compensation Committee met six times during fiscal 2017.

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

The responsibilities of the Nominating / Corporate Governance Committee include:

- (1) recommending individuals to the Board for nomination as members of the Board and its committees;
- (2) taking a leadership role in shaping our corporate governance policies and practices, including recommending to the Board changes to our Corporate Governance Guidelines and monitoring compliance with such guidelines;
- (3) in coordination with the Compensation Committee, monitoring issues associated with CEO succession planning and management development; and
- (4) reviewing the compensation of the members of the Board and recommending any changes to such compensation to the Board for its approval.

All members of the Nominating / Corporate Governance Committee are independent as required by the Committee's charter and NYSE rules.

The functions of the Nominating / Corporate Governance Committee are further described in its charter, which is available in the Investor Relations section of our website ([www.biglots.com](http://www.biglots.com)) under the "Corporate Governance" caption. The Nominating / Corporate Governance Committee met four times during fiscal 2017.

### ***Special Litigation Committee***

The Special Litigation Committee was created in fiscal 2016 to conduct an independent investigation into certain derivative actions involving the Company. The Special Litigation Committee is composed of three members, each of whom is a director that is not a party to any of the derivative actions and was not a member of the Board until after the derivatives actions arose.

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

The Nominating / Corporate Governance Committee has oversight over a broad range of issues relating to 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 our needs from time to time. The Nominating / Corporate Governance Committee also evaluates prospective director nominees against the standards and qualifications set forth in the 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 and has not adopted a formal policy with regard to the consideration of diversity in identifying director nominees, the Committee considers factors such as the prospective nominee's relevant experience, character, intelligence, independence, commitment, judgment, prominence, age, and compatibility with our CEO, senior management and other members of the Board. The Nominating / Corporate Governance Committee also considers other relevant factors that it deems appropriate, including the current composition of the Board, the alignment of the Board members' skills and experiences with our strategic plan, diversity, experience with succession planning, crisis management, the balance of management and independent directors, public company experience and the need for committee expertise. Before commencing a search for a new director nominee, the Nominating / Corporate Governance Committee confers with the Board regarding the factors it intends to consider in its search.

In identifying potential candidates for Board membership, the Nominating / Corporate Governance Committee considers recommendations from the Board, shareholders and management, as well as proxy access candidates. A shareholder who wishes to recommend a prospective director nominee to the Board must send written notice to: Chair of the Nominating / Corporate Governance Committee, Big Lots, Inc., 4900 E. Dublin-Granville Road, Columbus, Ohio 43081. The written notice must include the prospective nominee's name, age, business address, principal occupation, ownership of our 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 has the authority to retain consultants and search firms to assist in the process of identifying and evaluating director candidates and to approve the fees and other retention terms for any such consultant or search firm. No such firm was retained in connection with the selection of the director nominees proposed for election at the Annual Meeting. Spencer Stuart was retained in December of 2017 in connection with the search for one or two new directors.

### **Majority Vote Standard and Policy**

Our Amended Articles of Incorporation impose a majority vote standard in uncontested elections of directors and our Corporate Governance Guidelines contain a majority vote policy applicable to uncontested elections of directors. Article Eighth of our Amended Articles of Incorporation provides that if a quorum is present at the Annual Meeting, a director nominee in an uncontested election will be elected to the Board if the number of votes cast for such nominee's election exceeds the number of votes cast against and/or withheld from such nominee's election. The majority vote policy contained in our Corporate Governance Guidelines requires any nominee for director who does not receive more votes cast for such nominee's election than votes cast against and/or withheld as to his or her election to deliver his or her resignation from the Board to the Nominating / Corporate Governance Committee. Broker non-votes have no effect in determining whether the required affirmative majority vote has been obtained. Withheld votes have the same effect as a vote against a director nominee. Upon its receipt of such resignation, the Nominating / Corporate Governance Committee will promptly consider the resignation and recommend to the Board whether to accept the resignation or to take other action. The Board will act on the recommendation of the Nominating / Corporate Governance Committee no later than 100 days following the certification of the shareholder vote. The Nominating / Corporate Governance Committee, in making its recommendation, and the Board, in making its decision, will evaluate such resignation in light of the best interests of Big Lots and our shareholders and may consider any factors and other information they deem relevant. We will promptly publicly disclose the Board's decision in a periodic or current report to the SEC.

## **Determination of Director Independence**

The Board affirmatively determined that all of the directors nominated for election at the Annual Meeting are independent of Big Lots, its subsidiaries and its management under the standards set forth in the NYSE rules, and no director nominee has a material relationship with Big Lots, its subsidiaries or its management aside from his or her service as a director.

In determining that each of the director nominees is independent, the Board considered charitable contributions to not-for-profit organizations of which these director nominees or their immediate family members are executive officers or directors and determined that each of the transactions and relationships it considered was immaterial and did not impair the independence of any of the directors.

## **Related Person Transactions**

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Financial Professionals, and human resources policies prohibit (without the consent of the Board or the Nominating / Corporate Governance Committee) directors, officers and employees from engaging in transactions that conflict with our interests or that otherwise usurp corporate opportunities.

Pursuant to our written related person transaction policy, the Nominating / Corporate Governance Committee evaluates "related person transactions." Consistent with SEC rules, we consider a related person transaction to be any transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships):

- (1) involving more than \$120,000 in which we and any of our directors, nominees for director, executive officers, holders of more than five percent of our common shares, or their respective immediate family members were or will be a participant; and
- (2) in which such related person had, has or will have a direct or indirect material interest.

Under our policy, our directors, executive officers and other members of management are responsible for bringing all transactions, whether proposed or existing, of which they have knowledge and which they believe may constitute related person transactions to the attention of our General Counsel. If our General Counsel determines that the transaction constitutes a related person transaction, our General Counsel will notify the chair of the Nominating / Corporate Governance Committee. Thereafter, the Nominating / Corporate Governance Committee will review the related person transaction, considering all factors and information it deems relevant, and either approve or disapprove the transaction in light of what the Committee believes to be the best interests of Big Lots and our shareholders. If advance approval is not practicable or if a related person transaction that has not been approved is discovered, the Nominating / Corporate Governance Committee will promptly consider whether to ratify the related person transaction. Where advance approval is not practicable or we discover a related person transaction that has not been approved and the Committee disapproves the transaction, the Committee will, taking into account all of the factors and information it deems relevant (including the rights available to us or other parties under the transaction), determine whether we should amend, rescind or terminate the transaction in light of what it believes to be the best interests of Big Lots and its shareholders.

Examples of factors and information that the Nominating / Corporate Governance Committee may consider in its evaluation of a related person transaction include:

- (1) the reasons for entering into the transaction;
- (2) the terms of the transaction;
- (3) the benefits of the transaction to us;
- (4) the comparability of the transaction to similar transactions with unrelated third parties;
- (5) the materiality of the transaction to each party;
- (6) the nature of the related person's interest in the transaction;
- (7) the potential impact of the transaction on the status of an independent director; and
- (8) the alternatives to the transaction.

Additionally, each director, nominee for director and executive officer must complete an annual questionnaire that requires written disclosure of any related person transaction. The responses to these questionnaires are reviewed by the Nominating / Corporate Governance Committee and our General Counsel to identify any potential conflicts of interest or potential related person transactions. The son-in-law of Lisa Bachmann, our Executive Vice President, Chief



Merchandising and Operating Officer, is employed by Big Lots as a senior buyer and in fiscal 2017 received compensation greater than \$120,000 but less than \$150,000.

### **Board's Role in Risk Oversight**

The Board and its committees play an important role in overseeing the identification, assessment and mitigation of risks that are material to us. In fulfilling this responsibility, the Board and its committees regularly consult with management to evaluate and, when appropriate, modify our risk management strategies. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board is regularly informed about such risks through committee reports.

The Audit Committee assists the Board in fulfilling its oversight responsibility relating to the performance of our system of internal controls, legal and regulatory compliance, our audit, accounting and financial reporting processes, and the evaluation of enterprise risk issues, particularly those risk issues not overseen by other committees. The Compensation Committee is responsible for overseeing the management of risks relating to our compensation programs. The Nominating / Corporate Governance Committee manages risks associated with corporate governance, related person transactions, succession planning, and business conduct and ethics. The Public Policy and Environmental Affairs Committee, a management committee that reports to the Nominating / Corporate Governance Committee, oversees management of risks associated with public policy, environmental affairs and social matters that may affect our operations, performance or public image. The Company will be adding to our website a Corporate Social Responsibility section in fiscal 2018.

### **Corporate Governance Guidelines**

Our Corporate Governance Guidelines, which comply with NYSE rules, can be found in the Investor Relations section of our website ([www.biglots.com](http://www.biglots.com)) under the "Corporate Governance" caption.

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

We have a Code of Business Conduct and Ethics, which applies to all of our directors, officers and employees. We also have a Code of Ethics for Financial Professionals which applies to our principal executive officer, principal financial officer, principal accounting officer, controller and other persons performing similar functions. Both the Code of Business Conduct and Ethics and the Code of Ethics for Financial Professionals are available in the Investor Relations section of our website ([www.biglots.com](http://www.biglots.com)) under the "Corporate Governance" caption. We intend to post amendments to or waivers from any applicable provision (related to elements listed under Item 406(b) of Regulation S-K) of the Code of Business Conduct and Ethics and the Code of Ethics for Financial Professionals (in each case, to the extent applicable to our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions), if any, in the Investor Relations section of our website ([www.biglots.com](http://www.biglots.com)) under the "Corporate Governance" caption.

### **Compensation Committee Interlocks and Insider Participation**

During fiscal 2017, Messrs. Berger, Chambers, Mallott and Solt and Mrs. Gottschalk and Reardon served on our Compensation Committee. No member of our Compensation Committee serves, or at any time has served, as one of our officers or employees or has, or during fiscal 2017, had a material interest in any related person transaction, as defined in Item 404 of Regulation S-K. None of our executive officers serve or, during fiscal 2017, served as a member of the board of directors or compensation committee of any other company that has or had an executive officer serving as a member of the Board or our Compensation Committee.

### **Communications with the Board**

Shareholders and other parties interested in communicating directly with the Board, with specified individual directors or with the non-employee directors as a group, may do so by choosing one of the following options:

*Call:* (866) 834-7325  
*Write:* Big Lots Board of Directors, 4900 E. Dublin-Granville Road, Columbus, Ohio 43081  
*Email:* <http://biglotsbigvoice.com>

Under a process approved by the Nominating / Corporate Governance Committee for handling correspondence received by us and addressed to non-employee directors, our General Counsel reviews all such correspondence and forwards to the Board or appropriate members of the Board a summary and/or copies of any such correspondence that deals with the functions of the Board, members or committees thereof or otherwise requires their attention. Directors may at any time review a log of all correspondence received by us and directed to members of the Board and may request copies of any such correspondence. Concerns relating to our accounting, internal accounting controls or auditing matters will be referred to the Audit Committee. Concerns relating to the Board or members of senior management will be referred to the Nominating / Corporate Governance Committee. Parties submitting communications to the Board may choose to do so anonymously or confidentially.

## **DIRECTOR COMPENSATION**

Under the Big Lots, Inc. Non-Employee Director Compensation Package established by the Board, each non-employee director is compensated for Board and committee participation in the form of retainers and fees and a restricted stock award.

### **Retainers and Charitable Contributions**

During fiscal 2017, Messrs. Berger, Chambers, Mallott and Solt and Mrs. Gottschalk, Jamison, Reardon and Schoppert qualified as non-employee directors and, as a result, received compensation for their Board service. Due to our employment of Mr. Campisi as our CEO in fiscal 2017, he did not qualify as a non-employee director and he did not receive compensation for his service as a director. The compensation received by Mr. Campisi as an employee is shown in the Summary Compensation Table included in this Proxy Statement.

We pay our non-employee directors retainers and fees on a quarterly basis. From the beginning of the 2017 fiscal year until May 25, 2017, the annual retainers we paid to non-employee directors consisted of: (1) an annual retainer of \$80,000 for each non-employee director other than the nonexecutive chair; (2) an annual retainer of \$170,000 for the nonexecutive chair; (3) an additional annual retainer of \$30,000 for the Audit Committee chair; (4) an additional annual retainer of \$20,000 for the chairs of the Compensation Committee, the Nominating / Corporate Governance Committee and the Special Litigation Committee; (5) an additional annual retainer of \$15,000 for each Audit Committee member; (6) an additional annual retainer of \$10,000 for each member of the Compensation Committee, the Nominating / Corporate Governance Committee and the Special Litigation Committee. Effective on May 25, 2017, the Board made the following changes to the annual retainers we pay to non-employee directors: (1) the annual retainer for each non-employee director other than the nonexecutive chair increased to \$85,000; (2) the additional annual retainer for the Compensation Committee chair increased to \$25,000; (3) the additional annual retainer for each Compensation Committee member increased to \$12,500; (4) the additional annual retainer for the Special Litigation Committee chair increased to \$30,000; and (5) the additional annual retainer for each Special Litigation Committee member increased to \$20,000. Each term during which our non-employee directors serve on the Board, we donate an aggregate annual amount of up to \$15,000 to charitable organizations nominated by the non-employee director and make matching charitable donations in an aggregate annual amount of up to \$15,000 to charitable organizations to which the non-employee director makes contributions.

### **Restricted Stock Units**

In May 2017, our nonexecutive chair received a restricted stock unit award having a grant date fair value equal to approximately \$200,000 (4,095 common shares) and our non-employee directors received a restricted stock unit award having a grant date fair value equal to approximately \$135,000 (2,764 common shares). The restricted stock awards were made under the terms of the Big Lots 2017 Long-Term Incentive Plan ("2017 LTIP"). These restricted stock units will be settled in our common shares on the earlier to occur of (1) the trading day immediately preceding the Annual Meeting or (2) the non-employee director's death or disability (as defined in the 2017 LTIP). The non-employee director will forfeit the restricted stock units if the non-employee director ceases to serve on the Board before either settlement event occurs. Our non-employee directors may defer all or any portion of their restricted stock unit award until the earlier to occur of (1) the date specified by the non-employee director, (2) the non-employee director's death or disability or (3) the date the non-employee director ceases to serve as a member of the Board of Directors. The non-employee directors must make any deferral election on or before December 31 of the year preceding the grant of the restricted stock unit award (e.g., December 31, 2016 for awards granted in 2017) or, in the case of a newly elected director, within thirty days of the date they become eligible to participate in the 2017 LTIP.

## Director Compensation Table for Fiscal 2017

The following table summarizes the total compensation for fiscal 2017 for each of our non-employee directors.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)(2)</sup>	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$) <sup>(3)</sup>	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Mr. Berger	108,125	134,966	-	-	-	14,500	257,591
Mr. Chambers	147,000	199,959	-	-	-	30,000	376,959
Ms. Gottschalk	143,125	134,966	-	-	-	18,100	296,191
Ms. Jamison	133,750	134,966	-	-	-	15,000	283,716
Mr. Mallott	145,625	134,966	-	-	-	25,000	305,591
Ms. Reardon	117,500	134,966	-	-	-	37,500	289,966
Ms. Schoppert	126,250	134,966	-	-	-	29,450	290,666
Mr. Solt	110,625	134,966	-	-	-	15,000	260,591

- (1) Amounts in this column reflect the aggregate grant date fair value of the restricted stock unit awards granted to the non-employee directors in fiscal 2017 as computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("ASC 718"). The full grant date fair value of the fiscal 2017 restricted stock unit award granted to our nonexecutive chair and each non-employee director was based on individual awards of 4,095 and 2,764 common shares, respectively, at a per common share value of \$48.83 on the grant date. In accordance with ASC 718 and the 2017 LTIP, the per common share grant date value is the average of the opening price and the closing price of our common shares on the NYSE on the grant date.
- (2) As of February 3, 2018, Mr. Chambers held 4,095 shares of restricted stock units and each of the other individuals included in the table held 2,764 shares of restricted stock units.
- (3) Amounts in this column reflect both matching contributions and payments made by us during fiscal 2017 to charitable organizations nominated by the specified directors.

## STOCK OWNERSHIP

### Ownership of Our Common Shares by Certain Beneficial Owners and Management

The following table sets forth certain information with regard to the beneficial ownership of our common shares by each holder of more than five percent of our common shares, each director, each of the current and former executive officers named in the Summary Compensation Table, and all executive officers and directors as a group. The assessment of holders of more than five percent of our common shares is based on a review of and reliance upon their respective filings with the SEC. Except as otherwise indicated, all information is as of April 1, 2018.

Name of Beneficial Owner or Identity of Group	Amount and Nature of Beneficial Ownership (1)	Percent of Outstanding Common Shares
Lisa M. Bachmann	129,649	*
Jeffrey P. Berger	7,566	*
David J. Campisi	123,844	*
James R. Chambers	16,705	*
Marla C. Gottschalk	7,254	*
Cynthia T. Jamison	7,254	*
Timothy A. Johnson	133,266	*
Philip E. Mallott	23,666	*
Nancy A. Reardon	7,254	*
Ronald A. Robins, Jr.	14,323	*
Michael A. Schlonsky	79,059	*
Wendy L. Schoppert	7,254	*
Russell E. Solt	10,041	*
BlackRock, Inc. (2)	4,793,147	11.4%
The Vanguard Group, Inc. (3)	4,272,864	10.2%
Wells Fargo & Company (4)	2,642,929	6.3%
LSV Asset Management (5)	2,253,673	5.4%
All directors and executive officers as a group (14 persons)	567,735	1.3%

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

- (1) Each person named in the table has sole voting power and sole dispositive power with respect to all common shares shown as beneficially owned by such person, 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 April 1, 2018 under stock options exercisable and performance share units and restricted stock units that will vest within that period. The number of common shares that may be acquired within 60 days of April 1, 2018 through the vesting of performance share units within that period are as follows: Ms. Bachmann: 22,343; Mr. Campisi: 76,385; Mr. Johnson: 17,531; Mr. Schlonsky: 10,962; and Mr. Robins: 9,740; through the vesting of restricted stock units awards within that period are as follows: Mr. Berger: 2,764; Mr. Chambers: 4,095; Ms. Gottschalk: 2,764; Ms. Jamison: 2,764; Mr. Mallott: 2,764; Ms. Reardon: 2,764; Ms. Schoppert: 2,764; and Mr. Solt: 2,764 and under stock options exercisable within that period are as follows: Ms. Bachmann: 80,000; Mr. Johnson: 80,000; and Mr. Schlonsky: 40,000.
- (2) In its Schedule 13G/A filed on January 19, 2018, BlackRock, Inc., 55 East 52<sup>nd</sup> Street, New York, NY 10055, stated that it beneficially owned the number of common shares reported in the table as of December 31, 2017, had sole voting power over 4,670,762 of the shares and sole dispositive power over all the shares, and had no shared voting power or shared dispositive power over any of the shares.
- (3) In its Schedule 13G/A filed on February 12, 2018, The Vanguard Group, Inc., 100 Vanguard Blvd., Malvern, PA 19355, stated that it beneficially owned the number of common shares reported in the table as of December 31, 2017, had sole voting power over 82,802 of the shares, had sole dispositive power over 4,188,029 of the shares, had shared dispositive power over 84,835 of the shares, and had shared voting power over 5,404 of the shares. In its Schedule 13G/A, this reporting person indicated that its wholly-owned subsidiaries, Vanguard Fiduciary Trust Company and Vanguard Investments Australia, Ltd., were the beneficial owners of 79,431 and 8,775 common shares, respectively.
- (4) In its Schedule 13G filed on January 30, 2018, Wells Fargo & Company, 420 Montgomery Street, San Francisco, CA 94163, stated that it beneficially owned the number of common shares reported in the table as of December 31, 2017, had sole voting power and sole dispositive power over 37,946 of the shares, had shared dispositive power over 2,604,903 of the shares, and had shared voting power over 2,545,177 of the shares.
- (5) In its Schedule 13G filed on February 13, 2018, LSV Asset Management, 155 North Wacker Drive, Suite 4600, Chicago, IL 60606, stated that it beneficially owned the number of common shares reported in the table as of

December 31, 2017, had sole voting power over 1,187,908 of the shares and sole dispositive power over all the shares, and had no shared voting power or shared dispositive power over any of the shares.

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

Section 16(a) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), requires our directors and executive officers, and persons who beneficially own more than 10% of our outstanding common shares, to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of our common shares. Executive officers, directors and greater than 10% shareholders are required by the SEC rules to furnish us 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, we believe that all of our directors and executive officers and greater than 10% shareholders complied during fiscal 2017 with the reporting requirements of Section 16(a) of the Exchange Act.

# EXECUTIVE COMPENSATION

## Compensation Discussion and Analysis

This Compensation Discussion and Analysis, or CD&A, describes the compensation program for our named executive officers for fiscal 2017, who are listed below:

**David J. Campisi** <sup>(1)</sup>

Former Chief Executive Officer and President

**Timothy A. Johnson**

Executive Vice President, Chief Administrative Officer and Chief Financial Officer

**Lisa M. Bachmann**

Executive Vice President, Chief Merchandising and Operating Officer

**Michael A. Schlonsky**

Executive Vice President, Human Resources and Store Operations

**Ronald A. Robins, Jr.**

Senior Vice President, General Counsel and Corporate Secretary

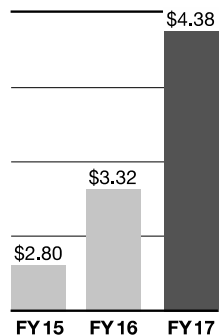
(1) Mr. Campisi retired as our CEO and President and as a director effective as of April 16, 2018.

## EXECUTIVE SUMMARY

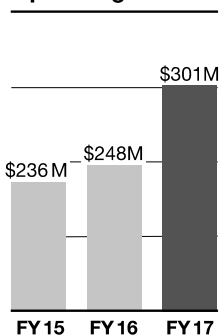
### *Company Performance in Fiscal 2017*

In fiscal 2017, we continued to focus on improving our financial and operating performance and continued to deliver solid and improved operating and financial results. Fiscal 2017 was again a challenging year for many retailers, but we continued to demonstrate our ability to perform by exceeding our earnings per share – diluted (“EPS”), operating profit and return on invested capital (“ROIC”) from fiscal 2015 and fiscal 2016, and we continued to return cash to our shareholders through share repurchases and dividends.

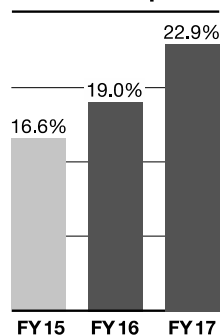
**Earnings Per Share - Diluted**



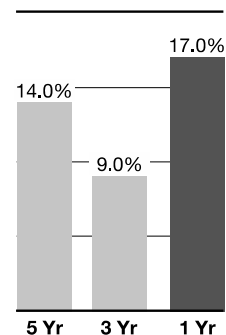
**Operating Profit**



**Return on Invested Capital**



**Total Annualized Shareholder Return**



**Approximately \$1.0 Billion**  
Returned to Shareholders Since 2013  
through Share Repurchases and Dividends

### *Key Executive Compensation Actions in Fiscal 2017*

- **Base Salary Increases for Named Executive Officers.** Based on an analysis of market data, the Committee approved base salary increases in fiscal 2017 of 4.5% for Mr. Campisi, 3% for Messrs. Johnson and Schlonsky and Ms. Bachmann and 5% for Mr. Robins.

- **Payouts on Performance-Based Awards.** Based on the Company's adjusted operating profit for fiscal 2017, the annual cash incentive awards for fiscal 2017 were paid at 82.53% of the target performance level. Based on the Company's EPS and ROIC over the past three years, the performance share units ("PSUs") we granted in fiscal 2015 vested at 118.6% of the target performance level. Based on the Company's operating profit in fiscal 2017, one-third of the restricted stock units ("RSUs") we granted in fiscal 2017 vested and the remaining two-thirds will vest ratably over the next two years.

## ***Executive Compensation Program Objectives and Components***

### ***Compensation Objectives***

Our executive compensation program is designed to:

- Pay for superior results by rewarding executives for achieving short- and long-term performance goals and creating long-term shareholder value;
- Align the interests of our executives with the interests of our shareholders through performance- and equity-based compensation; and
- Attract and retain talented executives by paying compensation that is competitive with the compensation paid by the companies in our peer group.

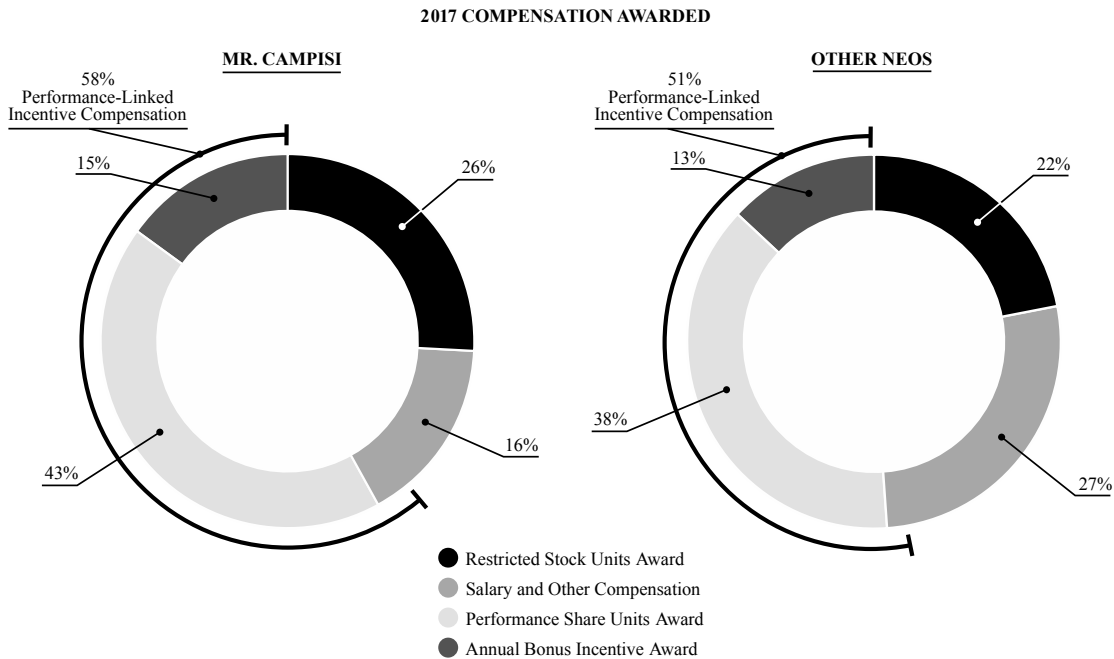
### ***Compensation Components***

The following table summarizes the primary components of our executive compensation program and the primary purposes each component serves in furthering the objectives of our executive compensation program:

<b>Component</b>	<b>Characteristics</b>	<b>Primary Purposes</b>
<i>Base Salary</i>	Annual fixed cash compensation	Attract and retain talented executives through an annual salary that reflects the executive's performance, experience and scope of responsibilities. Mitigate pressure to take unnecessary or excessive risks or unduly focus on the price of our common shares.
<i>Annual Cash Incentive Awards</i>	Annual variable performance-based cash compensation	Motivate executives to achieve performance objectives that directly relate to our annual operating and strategic goals.
<i>Long-Term Equity Incentive Awards</i>	Long-term variable equity awards granted annually as a combination of PSUs and RSUs	Align the interests of our executives with the interests of our shareholders. Motivate executives to achieve multi-year financial and strategic goals and create long-term shareholder value. Retain talented executives for the long-term.

## Pay-for Performance

Pay-for-performance is the fundamental objective of our executive compensation philosophy. As a result, the Committee believes that a majority of each named executive officer's pay should be at-risk or variable and dependent on our performance and/or stock price (i.e., performance-based). The following graphs show the percentage of Mr. Campisi's and our other named executive officers' total target compensation for fiscal 2017 that was performance-based.



## Executive Compensation and Governance Practices

The following table sets forth executive compensation and governance policies and practices we have implemented to advance the objectives of our executive compensation program and to align our practices and policies with industry-leading standards.

Practice	Big Lots Policy
<i>Pay-for-Performance Philosophy</i>	✓ A majority of the total target compensation opportunity of our named executive officers is at-risk or variable and dependent on our performance and/or stock price.
<i>Stock Ownership Requirements</i>	✓ All of our executive officers and outside directors are subject to stock ownership requirements.
<i>Clawback Policy</i>	✓ All of our executive officers are also subject to a compensation clawback policy.
<i>Independent Compensation Consultant</i>	✓ The Committee engages an independent compensation consultant that reviews and advises the Committee on executive compensation. The consultant performs services solely for the Committee.
<i>Independent Board Chair</i>	✓ We maintain separate CEO and Chairman of the Board positions.
<i>Anti-Hedging and Pledging Policy</i>	✓ We do not allow our directors or Leadership Team members to enter into any hedging or pledging transactions relating to our common shares.



<i>Excise Tax Gross-Ups</i>	✓	We do not pay excise tax gross up under our employment agreements or our new severance agreements in the event of a change in control.
<i>Dividends on Unearned Awards</i>	✓	We do not pay dividends on unearned performance awards.

## ***2017 Say-on-Pay Advisory Vote and Shareholder Engagement***

At our 2017 annual meeting of shareholders, our shareholders approved the compensation of our named executive officers with approximately 95% of votes cast in favor of our say-on-pay resolution. The Committee considers this vote a positive endorsement of our executive compensation program, and our shareholders' overwhelming support of our 2017 say-on-pay resolution and discussions with our shareholders before our 2017 annual meeting contributed to the Committee's decision to not make significant changes to our current executive compensation program.

## **EXECUTIVE COMPENSATION PROCESS**

### ***Roles in Compensation Determination Process***

The principal roles of the Committee, our outside directors, our CEO and members of management in our executive compensation determination process are as follows:

<b>Responsible Party</b>	<b>Role</b>
<i>Compensation Committee</i>	<p>Lead the process for establishing our annual executive compensation program and approve or recommend that the Board approve compensation actions.</p> <p>Consult with management and compensation consultant regarding employee benefit and compensation programs, plans and awards.</p>
<i>All Outside Directors</i>	<p>Conduct comprehensive evaluation of CEO performance.</p> <p>Approve annual executive compensation program and finalize compensation awards for the members of our Leadership Team.</p>
<i>CEO</i>	<p>Provide the Committee and other outside directors with an annual performance evaluation and compensation recommendation for each of the other members of our Leadership Team in the first quarter of each fiscal year based on the CEO's direct knowledge of their respective performance and contributions.</p>
<i>Management</i>	<p>Make recommendations to the Committee and our CEO in the design and administration our employee benefit and compensation programs, plans and awards in accordance with the Committee's charter and our compensation plans.</p> <p>Advise the Committee and our CEO regarding the competitiveness of existing and proposed compensation programs and the impact of accounting rules, laws and regulations on existing and proposed compensation programs.</p>

### ***Fiscal 2017 Compensation Determination Process***

At its February and March 2017 meetings, the Committee:

- reviewed and discussed the continued appropriateness of our executive compensation program, including its objectives, policies, components and processes;
- reviewed and discussed in executive session Mr. Campisi's performance, contributions and value to our business;
- reviewed and discussed Mr. Campisi's performance evaluations and compensation recommendations for the other Leadership Team members;

- reviewed and discussed comparative compensation survey data;
- considered internal pay equity by comparing the compensation of Mr. Campisi to the compensation of the other members of our Leadership Team;
- prepared its fiscal 2017 compensation recommendations for each member of our Leadership Team;
- determined that the performance trigger for the 2016 RSUs was achieved;
- determined that the performance metrics for the 2014 PSUs had been achieved; and
- determined that a bonus was payable under the annual incentive awards for fiscal 2016 as a result of corporate performance in fiscal 2016.

At our March 2017 Board meeting:

- the Committee discussed its compensation recommendations (which were consistent with Mr. Campisi's recommendations) with the other outside directors, including the underlying data and analysis and the form, amount of, and rationale for the recommended compensation; and
- the outside directors finalized the compensation awards for the Leadership Team members consistent with the Committee's recommendations.

## ***Performance Evaluation Process***

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Our CEO, the Committee and our outside directors generally consider the following objective and subjective factors when evaluating the performance of the members of our Leadership Team:

- |   |   |   |
|---|---|---|
| • long-term strategic goals                     | • short-term business goals                                       | • profit and revenue goals  |
| • expense goals                                 | • operating margin improvement                                    | • earnings per share growth   |
| • fostering teamwork and other corporate values | • optimization of organizational effectiveness and productivity   | • leadership and the development of talent                                |
| • the performance of our competitors            | • same store sales growth of the Company compared to the industry | • specific business challenges and general economic and market conditions |

Our CEO, the Committee and the other outside directors do not assign any of these performance factors a specific weight and may consider different factors for each executive.

## ***Independent Compensation Consultant***

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The Committee has the sole authority to retain compensation consultants as it deems necessary. In establishing executive compensation for fiscal 2017, the Committee retained Meridian Compensation Partners, LLC ("Meridian") as its compensation consultant based on its independence, expertise and past service to the Committee. Meridian provided research, data analyses, survey information and design expertise in developing compensation programs for executives and incentive programs for eligible employees. Meridian kept the Compensation Committee apprised of regulatory developments and market trends related to executive compensation practices. Meridian does not determine or recommend the exact amount or form of executive compensation for any of the named executive officers. Representatives of Meridian attended meetings of the Compensation Committee.

## ***Peer Compensation Data***

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During the course of establishing the fiscal 2017 executive compensation program, the Committee reviewed compensation data for a group of retailers similar to us with whom we believe we compete for talent (the "Retailer Peer Group"). In selecting the Retailer Peer Group, the Committee considered revenue, gross profit margin, geographic location, gross margin return on investment, market capitalization, net income, earnings per share, price-to-earnings ratio and shareholder return. The companies included in the Retailer Peer Group for fiscal 2017 were:

- |                             |                             |               |
|-----------------------------|-----------------------------|---------------|
| • Abercrombie & Fitch       | • Dick's Sporting Goods     | • Genesco     |
| • Advance Auto Parts        | • Dollar General            | • Guess       |
| • American Eagle Outfitters | • Dollar Tree/Family Dollar | • Ross Stores |

- Ascena Retail Group
- Bed Bath & Beyond
- Burlington Stores
- DSW
- Foot Locker
- Tractor Supply
- Williams – Sonoma

As a secondary reference, the Committee also reviewed executive compensation data regarding a broader group of retail companies included in a compensation survey provided by Equilar. We believe it is important to consult both sets of information because the compensation survey for the broader group includes compensation information on more executives and provides a more extensive basis on which to compare the compensation of the Leadership Team members, particularly those Leadership Team members whose responsibilities, experience and other characteristics are not directly comparable to the executives included in the publicly-available reports of the Retailer Peer Group.

The Committee and our human resources department reviewed each Leadership Team member's responsibilities and compared, where possible, the total direct compensation levels for our Leadership Team members to the total direct compensation of similarly situated executives within the peer groups. For purposes of this evaluation, no specific weight was given to one peer group over the other and total direct compensation was comprised of salary, annual incentive award at target and equity awards.

As discussed in this CD&A, we determine compensation subjectively based on numerous factors. We do not benchmark or target our compensation at any particular level in relation to the compensation of the peer groups. Rather, the peer group data provides a point of reference and market check.

## COMPONENTS OF OUR EXECUTIVE COMPENSATION PROGRAM

We seek to achieve the objectives of our executive compensation program by awarding the following primary components of compensation to our executive officers:

Component	Characteristics	Fiscal 2017 Metric
<i>Base Salary</i>	Annual fixed cash compensation	Based on annual performance review
<i>Annual Cash Incentive Awards</i>	Annual variable performance-based cash compensation	100% adjusted operating profit
<i>Long-Term Equity Incentive Awards</i>	Long-term variable equity awards granted annually as a combination of PSUs and RSUs	PSUs – EPS and ROIC performance during three annual service periods RSUs – Vest ratably over three years upon satisfaction of operating profit performance requirement

We believe each of these individual compensation components and the total mix of compensation components are necessary to provide a competitive executive compensation program and advance the objectives of our executive compensation program.

### ***Base Salary***

The Committee annually reviews and establishes the base salary for each named executive officer, subject to the minimum salary requirements set forth in the employment agreements described below in "Agreements with Named Executive Officers – Employment Agreements" to which we are a party with Ms. Bachmann and to which we were a party with Mr. Campisi prior to his retirement. The Committee determines adjustments to the base salaries of our named executive officers based on each executive's performance, experience, scope of responsibilities and base salary in comparison to our other employees and similarly positioned executives in our Retailer Peer Group and the anticipated future contributions of the executive. The Committee did not assign any specific weighting to these factors. For fiscal 2017, the Committee approved the following salaries for the named executive officers, which became effective on March 26, 2017:

Name	Fiscal 2017 Salary (\$)
Mr. Campisi	\$1,150,000
Mr. Johnson	\$ 598,350
Ms. Bachmann	\$ 763,850
Mr. Schlonsky	\$ 498,625

Name	Fiscal 2017 Salary (\$)
Mr. Robins	\$ 460,000

## ***Annual Cash Incentive Awards***

Each of our named executive officers participates in our annual cash incentive award program under the 2006 Bonus Plan. The amount of the annual cash incentive award earned by each named executive officer is based entirely on our corporate performance. On an annual basis with respect to our annual cash incentive award program, the Committee (1) selects one or more performance measures, (2) establishes threshold, target and maximum performance goals for each performance measure and (3) establishes for each named executive officer a percentage of base salary that is earned at the threshold, target and maximum performance levels (with linear interpolation between the specified payout percentages). No annual cash incentive award is earned if we do not meet the threshold performance goal. The Committee may exercise negative discretion to cancel or decrease, but not increase for "covered employees" (as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended and including applicable rules, regulations and authoritative interpretations thereunder ("IRC")), the annual cash incentive awards earned. See the "Bonus and Equity Plans" discussion following the Summary Compensation Table for more information regarding our annual cash incentive awards.

### ***Fiscal 2017 Performance Measure***

The Committee and the other outside directors selected adjusted operating profit as the performance measure for the annual cash incentive awards for fiscal 2017 because they believe it represents a key indicator of the strength of our operating results and financial condition and incentivizes the participants in our annual cash incentive award program to achieve strong earnings growth.

### ***Fiscal 2017 Performance Goals***

The Committee and other outside directors established the performance goals for the adjusted operating profit performance measure based on the annual corporate operating plan established by the Board for fiscal 2017. The minimum performance goal was set at the minimum acceptable level for adjusted operating profit in our annual corporate operating plan for fiscal 2017 while the target and maximum performance goals were respectively set at and above the projected operating profit in our annual corporate operating plan for fiscal 2017.

### ***Fiscal 2017 Payout Percentages***

Except for Mr. Campisi and Mr. Robins, the Committee and the other outside directors maintained the same annual cash incentive award payout percentages for our named executive officers for fiscal 2017 that applied for fiscal 2016 primarily as a result of the belief of the Committee and other outside directors that the payout percentages were appropriate to accomplish our executive compensation objectives for fiscal 2017. Mr. Campisi's and Mr. Robins' annual incentive award payout percentages were increased to make them competitive with our peers.

The following table sets forth for fiscal 2017 the performance goal established for each performance level and the payout percentage established for each named executive officer for each performance level:

Fiscal 2017 Performance Levels	Performance Goal (\$)	Payout Percentage (% of salary)				
		Mr. Campisi	Mr. Johnson	Ms. Bachmann	Mr. Schlonsky	Mr. Robins
Below Threshold	0-					
	\$290,939,014	0	0	0	0	0
Threshold	\$290,939,015	65	30	30	30	30
Target	\$302,995,027	130	60	60	60	60
Maximum	\$324,495,027	260	120	120	120	120

## *Fiscal 2017 Annual Cash Incentive Awards*

To calculate the amount of the annual incentive awards earned under the 2006 Bonus Plan, if any, we first calculate the applicable financial measure for purposes of our financial statements. We then adjust the measure to eliminate the effect of those events, transactions or accrual items described in the 2006 Bonus Plan. The Committee approves such adjustments at the same time it establishes the corporate performance goals and annual incentive award payout percentages applicable to the award. These adjustments may increase or decrease the corporate performance amount achieved. The Committee exercised negative discretion to reduce the corporate performance amount achieved for fiscal 2017 to exclude certain accrual items that would have otherwise increased such amount. The Committee decided to exclude these accrual items principally because they were anticipated as part of the annual corporate operating plan upon which the financial measure and corporate performance goals were established for fiscal 2017, and not because of any corporate or individual performance factors.

The following table sets forth for fiscal 2017 the payout percentage achieved and the annual cash incentive award earned by each named executive officer:

<b>Name</b>	<b>Payout Percentage (% of salary)</b>	<b>Annual Cash Incentive Award (\$)</b>
Mr. Campisi	107.3%	\$1,233,824
Mr. Johnson	49.5%	\$296,291
Ms. Bachmann	49.5%	\$378,243
Mr. Schlonsky	49.5%	\$246,909
Mr. Robins	49.5%	\$227,783

Our operating profit for fiscal 2017 was below our operating plan as established by our Board and management and therefore, our named executive officers earned a bonus between the threshold and target performance levels. As a consequence of the fiscal 2017 bonus payments, total cash compensation paid to the named executive officers for fiscal 2017 was generally at or below the median for our peer groups.

## ***Long-Term Equity Incentive Compensation***

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For fiscal 2017, we awarded PSUs and RSUs to our named executive officers. Each named executive officer received 60% of their equity awards in the form of PSUs and 40% in the form of RSUs. The Committee determined the value of the equity awards granted to our named executive officers, and the allocation of the equity awards between PSUs and RSUs, based on:

- management's estimate of the number of common shares underlying the equity awards to be granted during fiscal 2017 to all recipients other than Mr. Campisi;
- historical grant information;
- comparative compensation data;
- retention factors;
- corporate performance (particularly operating profit, income from continuing operations, selling and administrative expenses and EPS against planned and prior performance);
- individual performance;
- the executive's level of responsibility;
- the potential impact that the executive could have on our operations and financial condition;
- the market price of our common shares; and
- Mr. Campisi's recommendations for the value of the equity awards granted to the other named executive officers.

The Committee did not utilize a particular formula in making these determinations, although Company and individual performance were the most significant factors in determining the value of the equity awards granted to our named executive officers in fiscal 2017. See "Performance Evaluation Process" above for more information regarding how we evaluate performance.

PSUs and RSUs are settled in our common shares. Any PSUs or RSUs that do not vest will be forfeited. The PSUs and RSUs do not have voting rights. PSUs and RSUs include a dividend-equivalent right, which represents the right to receive the equivalent of any cash dividends payable with respect to our common shares underlying the awards. Any cash dividends will accrue without interest and will vest and be paid only at the time the corresponding PSUs or RSUs vest. Any accrued cash dividends relating to PSUs or RSUs that do not vest will be forfeited.

## PSU Award Process

The Committee annually awards a target number of PSUs to our named executive officers subject to (1) the attainment of performance goals applicable to specified performance measures during a three-year performance cycle consisting of three annual service periods and (2) the named executive officer's continued employment through the end of the performance cycle. A percentage of the target number of PSUs (i.e., the vesting factor) vests based on our average attainment of the performance goals applicable to the performance measures during the three-year performance cycle (with linear interpolation between the performance levels) as described in the following chart:

Performance Level	3-Year Average Performance Attainment	Vesting Factor
Threshold	90%	50%
Target	100%	100%
Maximum	110%	150%

To calculate the attainment of the performance goals, we first calculate the applicable performance measures for purposes of our financial statements and then adjust the performance measures to eliminate the effect of those events, transactions or accrual items described in the Big Lots 2012 Long-Term Incentive Plan ("2012 LTIP") and approved by the Committee when it establishes the performance goals. These adjustments may increase or decrease the amount achieved for the performance measure. The Committee may also exercise negative discretion to cancel or decrease, but not increase for "covered employees," the number of PSUs that vest.

The Committee establishes the performance measures and performance goals for each service period at the beginning of the service period. In March 2017, the Committee selected EPS and ROIC as the performance measures for the fiscal 2017 service period and established the performance goals applicable to the first service period of the fiscal 2017 PSU award performance cycle, the second service period of the fiscal 2016 PSU award performance cycle and the last service period of the 2015 PSU award performance cycle. The following table sets forth the performance goals established by the Committee for each performance measure for fiscal 2017 and the amount of each performance measure in fiscal 2017:

Performance Measure	Weighting	Threshold	Target	Maximum	Actual
EPS	50%	\$3.69	\$4.10	\$4.51	\$4.27
ROIC	50%	21.1%	23.5%	25.8%	22.7%

## Fiscal 2017 PSU Awards

The following table sets forth the target number and grant value of the PSUs awarded to the named executive officers in fiscal 2017 and the performance attained for each performance measure during each completed service period in the fiscal 2017 PSU award performance cycle:

Name	Target Number of PSUs	Grant Value of PSUs
Mr. Campisi	62,925	\$3,240,008
Mr. Johnson	15,231	\$784,244
Ms. Bachmann	19,444	\$1,001,171
Mr. Schlonsky	12,693	\$653,562
Mr. Robins	10,202	\$525,301

### Fiscal 2017 PSU Award Performance Cycle Attainment (2017-2019)

		Fiscal 2017	Fiscal 2018	Fiscal 2019
<b>EPS</b>	Actual Results	\$4.27	TBD	TBD
	Target Performance Goal	\$4.10	TBD	TBD
	Performance %	104.2%	TBD	TBD
<b>ROIC</b>	Actual Results	22.7%	TBD	TBD
	Target Performance Goal	23.5%	TBD	TBD
	Performance %	96.8%	TBD	TBD

## Fiscal 2016 PSU Awards

The following table sets forth the target number and grant value of the PSUs awarded to the named executive officers in fiscal 2016 and the performance attained for each performance measure during each completed service period in the fiscal 2016 PSU award performance cycle:

Name	Target Number of PSUs	Grant Value of PSUs
Mr. Campisi	82,104	\$3,703,711
Mr. Johnson	20,430	\$921,597
Ms. Bachmann	26,080	\$1,176,469
Mr. Schlonsky	17,025	\$767,998
Mr. Robins	10,263	\$462,964

**Fiscal 2016 PSU Award Performance Cycle Attainment**  
(2016-2018)

		Fiscal 2016	Fiscal 2017	Fiscal 2018
<b>EPS</b>	Actual Results	\$3.75	\$4.27	TBD
	Target Performance Goal	\$3.35	\$4.10	TBD
	Performance %	111.9%	104.2%	TBD
<b>ROIC</b>	Actual Results	21.8%	22.7%	TBD
	Target Performance Goal	19.2%	23.5%	TBD
	Performance %	113.7%	96.8%	TBD

**Fiscal 2015 PSU Awards**

The following table sets forth the target number and grant value of the PSUs awarded to the named executive officers in fiscal 2015, the number and value of the PSUs actually earned by the named executive under such awards, the vesting factor applicable to such awards and the performance attained for each performance measure during each service period in the fiscal 2015 PSU award performance cycle:

Name	Target Number of PSUs	Grant Value of PSUs	Number of PSUs Earned	Value of PSUs Earned	Vesting Factor
Mr. Campisi	64,406	\$3,184,233	76,385	\$3,305,423	118.6%
Mr. Johnson	14,782	\$730,822	17,531	\$758,742	118.6%
Ms. Bachmann	18,839	\$931,400	22,343	\$967,005	118.6%
Mr. Schlonsky	9,243	\$456,974	10,962	\$474,435	118.6%
Mr. Robins	8,213	\$382,562	9,740	\$421,547	118.6%

**Fiscal 2015 PSU Award Performance Cycle Attainment**  
(2015-2017)

		Fiscal 2015	Fiscal 2016	Fiscal 2017
<b>EPS</b>	Actual Results	\$3.02	\$3.75	\$4.27
	Target Performance Goal	\$2.77	\$3.35	\$4.10
	Performance %	109.0%	111.9%	104.2%
<i>EPS Vesting Factor for 2015 PSU Awards (122.6% + 129.9% + 110.4% / 3) = 120.9%</i>				
<b>ROIC</b>	Actual Results	18.6%	21.8%	22.7%
	Target Performance Goal	17.0%	19.2%	23.5%
	Performance %	109.2%	113.7%	96.8%
<i>ROIC Vesting Factor for 2015 PSU Awards (123.1% + 134.1% + 91.9% / 3) = 116.4%</i>				

**Fiscal 2017 RSU Awards**

The following table sets forth the number and grant value of the RSUs awarded to the named executive officers in fiscal 2017:

Name	Number of RSUs	Grant Value of RSUs
Mr. Campisi	41,949	\$2,159,954
Mr. Johnson	10,153	\$522,778
Ms. Bachmann	12,962	\$667,413
Mr. Schlonsky	8,461	\$435,657
Mr. Robins	6,801	\$350,183

The RSUs awarded to our named executive officers vest ratably over three years from the grant date of the award, subject to (1) the participant remaining employed by us through each annual vesting date and (2) an operating profit performance component that requires us to earn at least one dollar in operating profit for the fiscal year in which the grant date occurs or in either of the two fiscal years immediately thereafter. As a result of our performance in fiscal 2017, the

performance requirement for the fiscal 2017 RSU awards was met. Accordingly, one-third of the RSU awards for fiscal 2017 vested on the second trading day after we filed our Current Report on Form 8-K with the SEC reporting the satisfaction of the performance requirement.

## ***Personal Benefits and Perquisites***

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We provide our named executive officers with certain benefits that are available to nearly all salaried employees, including paid group term life insurance equal to one and a half times base salary, matching contributions to our Savings Plan, and medical and dental insurance. We generally provide the following limited personal benefits and perquisites to employees at or above the vice president level: (1) coverage under the Big Lots Executive Benefit Plan (“Executive Benefit Plan”); (2) enhanced long-term disability insurance coverage; and (3) use of an automobile or payment of an automobile allowance. We believe these personal benefits and perquisites, although immaterial to us in amount, are an important element of total compensation because of the value our executives place on these benefits.

Our Executive Benefit Plan reimburses executives for health-related costs incurred but not covered under our Big Lots Associate Benefit Plan, up to an annual maximum reimbursement of \$40,000 per family. Amounts received by named executive officers under the Executive Benefit Plan are treated as taxable income, and we reimburse each executive the approximate amount of his or her income tax liability relating to the benefits received under the Executive Benefit Plan.

We offer short-term disability coverage to all full-time employees and long-term disability coverage to all salaried employees. The benefits provided under the long-term disability plan are greater for our named executive officers than for employees below the vice president level. Under the enhanced long-term disability coverage, a named executive officer may receive 67% of his or her monthly salary, up to \$25,000 per month, until the executive is no longer disabled or turns 65, whichever occurs earlier. We pay the premiums for this long-term disability coverage and also reimburse our named executive officers for any income taxes resulting from our payment of such premiums.

In fiscal 2017, the Committee authorized Mr. Campisi to use the corporate aircraft for up to \$100,000 of non-business flights (as calculated in accordance with the methodology described in the notes accompanying the “Summary Compensation Table for 2017”). We reported imputed income for income tax purposes for the value of his non-business use of corporate aircraft based on the Standard Industry Fare Level in accordance with the IRC. We did not reimburse or otherwise “gross-up” Mr. Campisi for any income tax obligation attributed to his non-business use of corporate aircraft.

## ***Post-Termination and Change in Control Arrangements***

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The employment agreements and senior executive severance agreements described below in “Agreements with Named Executive Officers” provide our named executive officers with potential severance and change in control payments and benefits. Our equity compensation plans and related award agreements also provide for the accelerated vesting of outstanding stock options, restricted stock, PSUs and RSUs in connection with certain termination events, including the accelerated vesting of equity awards upon a change in control. The change in control provisions of the employment agreements and severance agreements provide the executive certain cash payments and other benefits upon a change in control only if the executive is terminated in connection with the change in control (including a constructive termination). The Committee believes that this “double trigger” structure incentivizes our executive officers to remain objective in connection with, and not be distracted by the personal uncertainties and risks created by, an actual or proposed change in control.

While the Committee considers the potential payments upon termination or change in control annually when it establishes compensation for the applicable year, this information is not a primary consideration in setting salary, bonus payout percentages or equity compensation amounts.

See “Potential Payments Upon Termination or Change in Control” below for a discussion of the compensation that may be paid to our named executive officers in connection with a change in control or the termination of employment.

We entered into a Separation Agreement (the “Retirement Agreement”) with Mr. Campisi effective as of April 16, 2018. The Retirement Agreement sets forth all of the payments and benefits (including the treatment of outstanding equity awards) that Mr. Campisi will receive in connection with his retirement. The material terms of the Retirement Agreement are described in the Current Report on Form 8-K that we filed with the SEC on April 17, 2018 which is incorporated by reference herein.



## AGREEMENTS WITH NAMED EXECUTIVE OFFICERS

### Employment Agreements

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We are a party to an employment agreement with Ms. Bachmann and we were a party to an employment agreement with Mr. Campisi prior to his retirement on April 16, 2018. The following table summarizes the key provisions of the employment agreements:

Provision	Campisi Employment Agreement	Bachmann Employment Agreement
<i>Term</i>	<ul style="list-style-type: none"><li>Effective until May 3, 2020 with automatic one-year renewal terms beginning on each May 4 thereafter.</li></ul>	<ul style="list-style-type: none"><li>Effective as long as we employ Ms. Bachmann.</li></ul>
<i>Minimum Annual Base Salary</i>	<ul style="list-style-type: none"><li>\$1,050,000</li></ul>	<ul style="list-style-type: none"><li>\$625,000</li></ul>
<i>Minimum Annual Cash Incentive Bonus Payout Percentages</i>	<ul style="list-style-type: none"><li>120% (target) and 240% (maximum)</li></ul>	<ul style="list-style-type: none"><li>60% (target) and 120% (maximum)</li></ul>
<i>Perquisites</i>	<ul style="list-style-type: none"><li>Authorizes personal use of corporate aircraft in an amount up to \$100,000 per calendar year.</li><li>Life insurance policy in an amount equal to two times current base salary.</li></ul>	<ul style="list-style-type: none"><li>None</li></ul>
<i>Retirement Benefits</i>	<ul style="list-style-type: none"><li>Provides certain payments and benefits if Mr. Campisi retires after May 3, 2020 and complies with all restrictive covenants.</li></ul>	<ul style="list-style-type: none"><li>None</li></ul>
<i>Restrictive Covenants</i>	<ul style="list-style-type: none"><li>Confidentiality (infinite).</li><li>Non-solicitation (two years, but reduced to six months following a change in control).</li><li>Non-disparagement (infinite).</li><li>Non-competition (two years, but reduced to six months following a change in control).</li><li>Continuing cooperation (infinite).</li></ul>	<ul style="list-style-type: none"><li>Confidentiality (infinite).</li><li>Non-solicitation (two years).</li><li>Non-disparagement (infinite).</li><li>Non-competition (one year, but reduced to six months following a change in control).</li><li>Continuing cooperation (infinite).</li></ul>
<i>"Golden Parachute" Excise Tax Gross-Up</i>	<ul style="list-style-type: none"><li>None</li></ul>	<ul style="list-style-type: none"><li>None</li></ul>

In negotiating the employment agreements with the executives, we considered many factors, including:

- our need for the services of the executive;
- the executive's level of responsibility and the potential impact that the executive could have on our operations and financial condition;
- the skills and past and anticipated future performance of the executive;
- the compensation paid to similarly-situated executives at peer group companies;
- the relationship between the compensation offered to the executive and the compensation paid to the other Leadership Team members; and
- our perception of the relative bargaining power of the Company and the executive.

### Senior Executive Severance Agreements

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We have entered into a senior executive severance agreement with each of Messrs. Johnson, Schlonsky and Robins and several other key officers who are not parties to an employment agreement. The senior executive severance agreements

expire on the first anniversary of the date of execution and automatically renew for an additional year unless we provide the executive at least 30 days' notice of non-renewal. The senior executive severance agreements provide for the following severance benefits if, within 24 months after a change in control, the executive is terminated by us (other than for cause) or as a result of a constructive termination: (1) a lump-sum payment equal to 200% of the executive's then current annual salary and maximum annual incentive award; and (2) for a period of one year, the executive is entitled to participate in any group life, hospitalization or disability insurance plan, health program or other executive benefit plan generally available to similarly titled executive officers. The executives are also entitled to reimbursement of legal fees and expenses they incur in seeking to enforce their rights under the agreement.

During fiscal 2017, the Committee amended all new senior executive severance agreements to eliminate a gross-up payment to offset any excise taxes upon a change of control and termination. For all grandfathered senior executive severance agreements, to the extent that payments to the executive pursuant to the senior executive severance agreement (together with any other amounts received by the executive in connection with a change in control) would trigger the provisions of Sections 280G and 4999 of the IRC, payments under the agreement will be increased to the extent necessary to place the executive in the same after-tax position as the executive would have been if no excise tax or assessment had been imposed on any such payment to the executive under the agreement or any other payment that the executive may receive as a result of such change in control. 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 IRC. All grandfathered senior executive severance agreements will be amended to eliminate this gross-up provision at the end of fiscal 2018.

## ***Severance Plan***

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The Board adopted the Severance Plan, which covers each of our named executive officers and several of our other key executives, to provide a more uniform approach to severance for our executives that avoids the use of individual severance agreements and ensures that restrictive covenants apply to our key executives. The payments and benefits to which our named executive officers would be entitled to under the Severance Plan (collectively, the "Severance Benefits") if they are terminated without Cause (as defined in the Severance Plan) or as a result of a Constructive Termination (as defined in the Severance Plan) are described below in the "Potential Payments Upon Termination or Change in Control – Involuntary Termination Without Cause."

The Severance Plan also imposes confidentiality, non-competition, non-solicitation, non-disparagement and post-termination cooperation obligations on participants. The non-competition and non-solicitation obligations apply during the period of employment and continue until the end of the restriction period set forth in the Severance Plan.

The Severance Plan does not provide a gross-up payment to any participants to offset any excise taxes that may be imposed on excess parachute payments under Section 4999 (the "Excise Tax") of the IRC.

If Ms. Bachmann is entitled to benefits under the Severance Plan and to severance benefits under her employment agreement, she will receive the greater of (i) the aggregate benefits payable under the Severance Plan or (ii) the aggregate severance benefits payable under her employment agreement.

As indicated above, the Retirement Agreement sets forth all of the payments and benefits (including the treatment of outstanding equity awards) that Mr. Campisi will receive in connection with his retirement.

## ***Retirement Plans***

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We maintain two retirement plans: (1) a tax-qualified defined contribution plan ("Savings Plan"); and (2) a non-qualified supplemental defined contribution plan ("Supplemental Savings Plan"). We terminated our tax-qualified, funded noncontributory defined benefit pension plan ("Pension Plan") on January 31, 2016 and our non-qualified supplemental pension plan ("Supplemental Pension Plan") on December 31, 2015. We believe that the Savings Plan and Supplemental Savings Plan are generally commensurate with the retirement plans provided by companies in our peer groups and that providing these plans enhance our ability to attract and retain qualified executives. See the "Nonqualified Deferred Compensation – Supplemental Savings Plan" section of this Proxy Statement for a discussion of our retirement plans.

## **OTHER EXECUTIVE COMPENSATION POLICIES AND PRACTICES**

### ***Minimum Share Ownership Requirements and Hedging and Pledging Prohibition***

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The Board has adopted minimum share ownership requirements for all outside directors and Leadership Team members. These requirements are designed to align the long-term interests of our outside directors and executives with those of our shareholders. Under the requirements, the outside directors and Leadership Team members must own common shares having an aggregate value equal to at least the following multiple of his or her Board retainer or salary (as is in effect at the time compliance with the requirements is evaluated), as applicable:

<b>Title</b>	<b>Multiple of Retainer or Salary</b>
Outside Director	5x
Chief Executive Officer	5x
Executive Vice President	2.5x
Senior Vice President	2x

Shares counted toward these requirements include common shares held directly or through a broker, common shares held under the Savings Plan or Supplemental Savings Plan, unvested restricted stock, unvested RSUs, unvested PSUs (at the threshold amount), deferred stock units and vested but unexercised in-the-money stock options. Each outside director that served on the Board when these requirements were adopted in March 2008 is required to meet the requirements at each annual adjustment date (the “testing date”). Outside directors and executives must meet the requirements on the first testing date for outside directors or executives following the fifth anniversary of their election, hire or promotion, as applicable. As of March 12, 2018, each outside director and executive who has been on the Board or a Leadership Team member for at least five years satisfied our minimum share ownership requirements.

In addition to the minimum share ownership requirements, we do not allow our outside directors or Leadership Team members to enter into any hedging, pledging or monetization transactions involving our common shares.

### ***Equity Grant Timing***

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Pursuant to the terms of the 2012 LTIP and the 2017 LTIP, the grant date of equity awards must be the later of the date the terms of the award are established by corporate action or the date specified in the award agreement. Consistent with prior years, in fiscal 2017, the outside directors, after consultation with the Committee, specified that the grant date of the equity awards was the second trading day following our release of fiscal 2016 results. This future date was established to allow the market to absorb and react to our release of material non-public information, and to avoid any suggestion that the Board, the Committee or any employee manipulated the terms of the equity awards. For equity awards made throughout the fiscal year, which generally are made as a result of a hiring or promotion, the grant date is the 15<sup>th</sup> day of the month following the month of the hire or promotion date. We have no policy of timing the grant date of equity awards with the release of material non-public information, and we have not timed the release of material non-public information for the purpose of affecting the value of any equity awards.

### ***Tax and Accounting Considerations***

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The Committee reviews and considers the impact that tax laws and accounting regulations may have on the executive compensation awards, including the deductibility of executive compensation under Section 162(m) of the IRC. In doing so, the Committee relies on guidance from members of our finance and legal departments, as well as outside accountants and attorneys.

The exception from Section 162(m)'s annual deduction limit for performance-based compensation has been repealed, effective for taxable years beginning after December 31, 2017, such that compensation otherwise deductible with respect to each of our covered executive officers in excess of \$1 million will not be deductible unless it qualifies for transition relief applicable to certain arrangements in place as of November 2, 2017.

Despite the Committee's efforts to structure the executive team annual cash incentives and performance-based compensation in a manner intended to meet the exception from Section 162(m)'s deduction limits, no assurance can be given that compensation intended to satisfy the requirements of Section 162(m) in fact will, due to ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, including the uncertain scope of the transition relief under the legislation repealing Section 162(m)'s exemption from the deduction

limit. Further, the Committee reserves the right to modify compensation that was initially intended to meet the exception from Section 162(m) if it determines that such modifications are consistent with the Company's business needs.

## ***EXECUTIVE COMPENSATION PROGRAM FOR FISCAL 2018***

In establishing the executive compensation program for fiscal 2018, the Committee engaged Meridian to:

- provide comparative compensation data;
- review and recommend changes to our executive compensation program;
- review the appropriateness of our Retailer Peer Group; and
- compare the amount and form of executive compensation paid to our executives against the compensation paid to similarly-situated executives at companies within the Retailer Peer Group.

The Committee did not make any material changes to the design of our executive compensation program when establishing compensation for fiscal 2018 other than granting an additional award of restricted stock units to Messrs. Johnson, Schlonsky and Robins and Ms. Bachmann in consideration for the additional responsibilities they assumed during fiscal 2017, which will vest in fiscal 2020 subject to the executive's continued employment. With the exception of the additional restricted stock units award discussed in the preceding sentence, for fiscal 2018, we awarded RSUs and PSUs with the same weighting as fiscal 2017, with the RSUs vesting ratably over three years from the grant date of the award with a performance component and the PSUs vesting only if we meet performance targets over a three-year performance period with three separate service periods. For the fiscal 2018 service period, the PSU performance targets are based on EPS and ROIC, each of which account for 50% of the performance component of the PSUs.

## **COMPENSATION COMMITTEE REPORT**

The Compensation Committee reviewed and discussed the above CD&A with management and, based on such review and discussion, the Compensation Committee recommended to the Board that the CD&A be included in this Proxy Statement and our Annual Report on Form 10-K for fiscal 2017 ("Form 10-K").

### *Members of the Compensation Committee*

	Nancy A. Reardon ( <i>Chair</i> )	
Jeffrey P. Berger		Philip A. Mallott
Marla C. Gottschalk		Russell E. Solt

## Summary Compensation Table for 2017

Name and Principal Position (1) (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards (\$) (3) (e)	Option Awards (\$) (f)	Non-Equity Incentive Plan Compensation (\$) (4) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (h)	All Other Compensation (\$) (5)(6) (i)	Total (\$) (j)
David J. Campisi, <i>Chief Executive Officer and President (7)</i>	2017	1,142,308	-	5,399,962	-	1,233,824	-	569,418	8,345,512
	2016	1,092,308	-	6,172,807	-	2,294,028	-	240,384	9,799,527
	2015	1,034,656	-	5,307,038	-	2,089,206	-	196,084	8,626,984
Timothy A. Johnson, <i>Executive Vice President, Chief Administrative Officer and Chief Financial Officer</i>	2017	595,668	-	1,307,022	-	296,291	-	207,378	2,406,359
	2016	578,317	-	1,535,950	-	605,749	-	71,132	2,791,148
	2015	543,935	-	1,218,004	-	545,266	-	49,404	2,356,609
Lisa M. Bachmann, <i>Executive Vice President, Chief Merchandising and Operating Officer</i>	2017	760,427	-	1,668,585	-	378,243	-	231,466	3,038,721
	2016	738,277	-	1,960,751	-	773,296	-	101,014	3,573,338
	2015	694,773	-	1,552,317	-	696,851	-	57,816	3,001,757
Michael A. Schlonsky, <i>Executive Vice President, Human Resources and Store Operations</i>	2017	496,390	-	1,089,219	-	246,909	-	156,370	1,988,888
	2016	481,931	-	1,279,951	-	504,790	228,547	116,861	2,612,080
	2015	446,312	-	761,574	-	408,089	605	60,838	1,677,418
Ronald A. Robins Jr., <i>Senior Vice President, General Counsel and Corporate Secretary (8)</i>	2017	456,577	-	875,484	-	227,783	-	56,769	1,616,613
	2016	435,788	-	771,561	-	380,383	-	52,557	1,640,289

- (1) We are a party to an employment agreement with Ms. Bachman and we were a party to an employment agreement with Mr. Campisi prior to his retirement on April 16, 2018, the material terms of which are described in the “Agreements with Named Executive Officers – Employment Agreements” section of the CD&A. We are a party to a senior executive severance agreement with Mr. Johnson, Mr. Schlonsky, and Mr. Robins, the material terms of which are described in the “Agreements with Named Executive Officers – Senior Executive Severance Agreements” section of the CD&A. We are a party to an executive severance plan with each of our named executive officers, the material terms of which are described in the “Agreements with Named Executive Officers – Severance Plan” section of the CD&A. We entered into the Retirement Agreement with Mr. Campisi effective as of April 16, 2018. The Retirement Agreement sets forth all of the payments and benefits (including the treatment of outstanding equity awards) that Mr. Campisi will receive in connection with his retirement.
- (2) The amounts in this column reflect the salary earned by each named executive officer during fiscal 2017.
- (3) The amounts in this column reflect the sum of (i) the grant date fair value of the RSUs, as determined in accordance with ASC 718, and (ii) the estimated fair value of the PSUs awarded to the named executive officers under the 2012 LTIP.
- (4) The amounts in this column reflect annual incentive awards earned under the 2006 Bonus Plan for performance during each of the last three fiscal years.
- (5) For fiscal 2017, the amounts in this column include the following compensation for the executives, as more fully described in the table included with this footnote:
- The reimbursement of taxes related to our payment of healthcare costs, including costs covered by the Executive Benefit Plan, long-term disability insurance premiums, and relocation expenses;
  - Matching contributions made by Big Lots pursuant to the Savings Plan and the Supplemental Savings Plan, both of which are described in the narrative disclosure accompanying the Nonqualified Deferred Compensation table below;
  - Healthcare costs paid by Big Lots pursuant to the Executive Benefit Plan, which is described in the “Components of our Executive Compensation Program – Personal Benefits and Perquisites” section of the CD&A;
  - Premiums paid by Big Lots for life insurance, which is generally available to all full-time employees;

- v. Premiums paid by Big Lots for long-term disability insurance, which is described in the “Components of our Executive Compensation Program – Personal Benefits and Perquisites” section of the CD&A;
- vi. The cost to Big Lots associated with the executive’s use of an automobile or receipt of a cash allowance in lieu of an automobile;
- vii. The aggregate incremental cost to Big Lots associated with non-business use of non-commercial aircraft by Mr. Campisi;
- viii. Matching charitable contributions made by Big Lots; and
- ix. Dividends paid on vested RSU and PSU awards.

The aggregate incremental cost of non-business use of non-commercial aircraft is calculated based on the direct costs we incur in connection with operating a flight, including expenses for fuel, oil, landing, ground services, on-board catering, and other miscellaneous variable costs. Due to the fact that the non-commercial aircraft are used primarily for business travel, fixed costs which do not change based on usage, such as pilot salaries, hangar fees, management fees, purchase costs, and leasing costs for the aircraft, are excluded. We did not reimburse or otherwise “gross-up” Mr. Campisi for any income tax obligation attributed to his non-business use of non-commercial aircraft. The benefit of non-business use of non-commercial aircraft, which was approved by the Compensation Committee for fiscal 2017 as part of Mr. Campisi’s overall compensation package, is described in the “Components of our Executive Compensation Program – Personal Benefits and Perquisites” section of the CD&A.

Name	Mr. Campisi	Mr. Johnson	Ms. Bachmann	Mr. Schlonsky	Mr. Robins
Reimbursement of Taxes (\$)	19,140	5,686	7,582	18,986	4,080
Big Lots Contributions to Defined Contribution Plans (\$)	10,800	10,800	10,800	10,800	10,800
Big Lots Paid Health Care under Executive Benefits Plans (\$)	19,323	4,718	6,776	19,155	6,707
Big Lots Paid Life Insurance Premiums (\$)	775	693	775	579	533
Big Lots Paid Long-Term Disability Insurance Premiums (\$)	1,454	1,454	1,454	1,454	1,447
Use of Automobile or Automobile Allowance (\$)	46,379	13,200	13,200	13,200	13,200
Non-Business Aircraft Usage (\$)	73,525	-	-	-	-
Matching Charitable Contributions (\$)	15,000	15,000	15,000	15,000	15,000
Dividend Payments (\$)	383,022	155,827	175,879	77,196	5,002

- (6) We purchase tickets to entertainment and sporting venues for the primary purpose of allowing employees to use such tickets in furtherance of our business. Because we incur no incremental cost if a named executive officer uses such tickets for purposes other than our business, such tickets are not included in the amounts in this column.
- (7) Mr. Campisi retired as our CEO and President and as a director effective as of April 16, 2018.
- (8) Mr. Robins was not a named executive officer in fiscal 2015.

### **Bonus and Equity Plans**

The amounts reported in the Summary Compensation Table above include awards granted to the named executive officers under the 2006 Bonus Plan and the 2012 LTIP. Below is a description of the material terms of each plan and the awards made under those plans to our named executive officers, as reflected in the following Grants of Plan-Based Awards in Fiscal 2017 table.

#### **Big Lots 2006 Bonus Plan**

The 2006 Bonus Plan provides for cash compensation, which we have structured in a manner intended to qualify as “qualified performance-based compensation” under Section 162(m) of the IRC, to be paid annually when we meet or exceed pre-established minimum corporate performance amounts under one or more financial measures approved by the Compensation Committee and other non-employee directors at the start of the fiscal year. Whether we will achieve the minimum corporate performance amounts is substantially uncertain at the time the corporate performance amounts and financial measures are established. No right to a minimum annual incentive award exists, and the Compensation Committee has the discretion to cancel or decrease an annual incentive award (but may not increase an annual incentive award for a covered employee (as that term is used within Section 162(m) of the IRC)) calculated under the 2006 Bonus Plan. Any payments made with respect to a fiscal year are made in the first quarter of the following fiscal year. The annual incentive awards that may be earned under the 2006 Bonus Plan range from the threshold to the maximum annual incentive award payout percentages, and include all amounts in between. The smallest target and maximum annual incentive award payout percentages that may be set annually for our named executive officers who are a party to an employment agreement with us are set forth in their respective employment agreements. The threshold annual incentive award payout percentage is pre-established annually by the Compensation Committee and the other non-employee

directors and has historically been one-half of the target annual incentive award payout percentage. Subject to the terms of the employment agreements, the Compensation Committee and the other non-employee directors retain the right to adjust the payout percentages and, in the past, have generally done so as deemed necessary to realign an executive's annual incentive award opportunity with our compensation philosophy. Pursuant to the terms of the 2006 Bonus Plan, the maximum annual incentive award payable under the plan to a participant in a single fiscal year is \$4,000,000. See the "Components of our Executive Compensation Program – Annual Cash Incentive Awards" and "Agreements with Named Executive Officers – Employment Agreements" sections of the CD&A for more information regarding the 2006 Bonus Plan and the awards made under that plan for fiscal 2017.

#### *Big Lots 2012 Long-Term Incentive Plan*

From May 23, 2012 through May 25, 2017, all employee equity awards, including those made to our named executive officers, were granted under the 2012 LTIP. The 2012 LTIP authorized the grant of (1) non-qualified stock options ("NQSOs"), (2) incentive stock options ("ISOs") as defined in Section 422 of the IRC, (3) stock appreciation rights ("SARs"), (4) restricted stock, (5) RSUs, (6) deferred stock units, (7) performance shares, (8) PSUs, (9) performance units, (10) cash-based awards, and (11) other stock-based awards (NQSOs, ISOs, SARs, restricted stock, restricted stock units, deferred stock units, performance shares, performance share units, performance units, cash-based awards and other stock-based awards are referred to collectively as "Awards").

Each stock option granted under the 2012 LTIP allows the recipient to acquire our common shares, subject to the completion of a vesting period and continued employment with us through the applicable vesting date. Once vested, these common shares may be acquired at a fixed exercise price per share and they remain exercisable for the term set forth in the award agreement. Stock option awards under the 2012 LTIP vest on the anniversary of the grant date at a rate of 25% per year over the first four years of the seven year option term. Pursuant to the terms of the 2012 LTIP, the exercise price of a stock option may not be less than the average trading price of our common shares on the grant date or, if the grant date occurs on a day other than a trading day, on the next trading day.

Under the outstanding restricted stock awards granted pursuant to the 2012 LTIP, if we meet the first trigger and the recipient remains employed by us, the restricted stock will vest at the opening of our first trading window after the fifth anniversary of the grant date. If we meet the second trigger for any fiscal year ending prior to the fifth anniversary of the grant date and the recipient remains employed by us, the restricted stock will vest on the first trading day after we file with the SEC our Annual Report on Form 10-K for the year in which the second trigger is met. The restricted stock will also vest on a prorated basis in the event that the recipient dies or becomes disabled, or if the recipient is terminated without cause, after we meet the first trigger but before the lapse of five years. The restricted stock will be forfeited, in whole or in part, as applicable, if the recipient voluntarily terminates employment with us prior to vesting.

The RSUs awarded to our named executive officers in fiscal 2017 pursuant to the 2012 LTIP covered a fixed number of RSUs. The RSUs will vest, if at all, ratably over three years from the grant date of the award if the participant remains employed by us through each annual vesting date (except in the case of death, disability, retirement, involuntary termination or constructive termination). These RSUs are also subject to an operating profit performance component that requires us to earn at least one dollar in operating profit for the fiscal year in which the grant date occurs or in either of the two fiscal years immediately thereafter. The performance component is designed to preserve the deductibility of the RSU awards under Section 162(m) of the IRC.

The PSUs awarded to our named executive officers in fiscal 2017 covered a target number of PSUs. The PSUs will vest, if at all, after the completion of a three-year performance period, based: (1) 50% on our average EPS performance, excluding plan-defined items, for each of the three service periods during the performance period; (2) 50% on our average ROIC performance (net operating profit after-tax divided by invested capital for the fiscal year), excluding plan-defined items, for each of the three service periods during the performance period; and (3) on the named executive officer's continued employment through the end of the performance period (except in the case of death, disability or retirement).

The actual number of PSUs that will vest will increase to 150% of the target number if we achieve the maximum performance levels for both of the EPS and ROIC performance goals, and decrease to zero if we fail to meet the minimum performance levels for both of the performance goals. If we achieve the minimum performance levels for both of the EPS and ROIC performance goals, 50% of the target number of PSUs will vest. The percentage of the target number of PSUs that will vest for performance between the threshold and maximum performance levels will increase proportionately from 50% to 150% based on our actual performance. For the first service period of the fiscal 2017 PSU awards, the Committee established the threshold, target and maximum EPS performance levels at \$3.69, \$4.10 and \$4.51, respectively, and the threshold, target and maximum ROIC performance levels at 21.1%, 23.5% and 25.8%, respectively.

Upon a change in control (as defined in the 2012 LTIP), all awards outstanding under the 2012 LTIP automatically become fully vested. For a discussion of the change in control provisions in our named executive officers' employment agreements and senior executive severance agreements and the 2012 LTIP, see the "Potential Payments Upon Termination or Change in Control – Rights Under Post-Termination and Change in Control Arrangements" section below. See the "Components of our Executive Compensation Program – Long-Term Equity Incentive Compensation" section of the CD&A and the "Potential Payments Upon Termination or Change in Control – Rights Under Post-Termination and Change in Control Arrangements" section below for more information regarding the equity awards made under the 2012 LTIP in fiscal 2017.

### *Big Lots 2017 Long-Term Incentive Plan*

All equity awards granted to our employees and non-employee directors since May 25, 2017 have been granted under the 2017 LTIP. The 2017 LTIP authorizes grants of (1) NQSOs, (2) ISOs, (3) SARs, (4) restricted stock, (5) RSUs, (6) deferred stock units, (7) performance shares, (8) PSUs, (9) performance units, (10) cash-based awards, and (11) other stock-based awards. All of our and our affiliates' employees, outside directors and consultants are eligible to receive Awards under the 2017 LTIP.

The total number of common shares available for Awards under the 2017 LTIP is equal to the sum of (1) 5,500,000 newly issued common shares plus (2) any common shares subject to the 1,743,116 outstanding full value awards as of January 28, 2017 under the 2012 LTIP that on or after January 28, 2017 cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and nonforfeitable common shares).

Of the total number of common shares available for grant under the 2017 LTIP, no more than 5,500,000 common shares may be issued pursuant to grants of ISOs during the term of the 2017 LTIP. A participant may receive multiple Awards under the 2017 LTIP.

In fiscal 2017, the only awards made pursuant to the 2017 LTIP were the RSUs awarded to our non-employee directors, which are discussed in the "Director Compensation" section of this Proxy Statement.

### **Grants of Plan-Based Awards in Fiscal 2017**

The following table sets forth each award made to our named executive officers in fiscal 2017 under the 2006 Bonus Plan and the 2012 LTIP.

Name (a)	Grant Date (1) (b)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (2)			Estimated Future Payouts Under Equity Incentive Plan Awards (3)			All Other Stock Awards: Number of Shares of Stock or Units (#) (4) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards (\$/Sh.) (k)	Grant Date Fair Value of Stock and Option Awards (\$/Shr.) (5) (l)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)				
Mr. Campisi	-	747,500	1,495,000	2,990,000	-	-	-	-	-	-	-
	3/7/17	-	-	-	31,463	62,925	94,388	-	-	-	3,240,008
	3/7/17	-	-	-	-	-	-	41,949	-	-	2,159,954
Mr. Johnson	-	179,505	359,010	718,020	-	-	-	-	-	-	-
	3/7/17	-	-	-	7,616	15,231	22,847	-	-	-	784,244
	3/7/17	-	-	-	-	-	-	10,153	-	-	522,778
Ms. Bachmann	-	229,155	458,310	916,620	-	-	-	-	-	-	-
	3/7/17	-	-	-	9,722	19,444	29,166	-	-	-	1,001,171
	3/7/17	-	-	-	-	-	-	12,962	-	-	667,413
Mr. Schlonsky	-	149,588	299,175	598,350	-	-	-	-	-	-	-
	3/7/17	-	-	-	6,347	12,693	19,040	-	-	-	653,562
	3/7/17	-	-	-	-	-	-	8,461	-	-	435,657
Mr. Robins	-	138,000	276,000	552,000	-	-	-	-	-	-	-
	3/7/17	-	-	-	5,101	10,202	15,303	-	-	-	525,301
	3/7/17	-	-	-	-	-	-	6,801	-	-	350,183

(1) As discussed in the "Compensation Policies & Practices – Equity Grant Timing" section of the CD&A, in fiscal 2017, the Board set the grant date for the RSU awards and the service inception date for the PSU awards as the



second trading day following our release of results from our last completed fiscal year. This future date was established to allow the market to absorb and react to our release of material non-public information, and to avoid any suggestion that the Board, the Compensation Committee or any employee manipulated the terms or timing of the equity awards.

- (2) The amounts in columns (c), (d) and (e) represent our named executive officers' threshold, target and maximum annual incentive award levels, respectively, for fiscal 2017 pursuant to the 2006 Bonus Plan, which annual incentive award levels are further described in the "Components of our Executive Compensation Program – Annual Cash Incentive Awards" section of the CD&A. For fiscal 2017, our named executive officers earned an annual incentive award under the 2006 Bonus Plan, as reflected in column (g) of the Summary Compensation Table.
- (3) The amounts in columns (f), (g) and (h) represent the threshold, target and maximum number of PSUs awarded pursuant to the 2012 LTIP that each named executive officer is eligible to earn depending on the level of achievement of the applicable performance metrics over the three-year performance period. For more information on PSUs, see the narrative preceding this table and the "Components of our Executive Compensation Program – Long-Term Equity Incentive Compensation" section of the CD&A.
- (4) The amounts in column (i) represent RSUs awarded pursuant to the 2012 LTIP, which awards are described in the narrative preceding this table and the "Components of our Executive Compensation Program – Long-Term Equity Incentive Compensation" section of the CD&A.
- (5) This column represents the full grant date fair value of the RSUs as calculated in accordance with ASC 718 and the estimated fair value of the PSUs as of the issuance date based on the probable outcome of the performance conditions.

### Outstanding Equity Awards at 2017 Fiscal Year-End

The following table sets forth, as of the end of fiscal 2017, all equity awards outstanding under our equity compensation plans for each named executive officer.

Name (a)	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options Exercisable (b)	Number of Securities Underlying Unexercised Options (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d)	Option Exercise Price (\$) (1) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (2) (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (4) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (3) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (4) (j)
Mr. Campisi	-	-	-	-	-	93,221	5,382,581	247,235	14,275,349
Mr. Johnson	35,000	-	-	43.85	3/6/2019	-	-	-	-
	5,000	-	-	30.82	8/28/2019	-	-	-	-
	40,000	-	-	35.72	3/8/2020	-	-	-	-
	-	-	-	-	-	22,630	1,306,656	80,443	4,644,779
Ms. Bachmann	40,000	-	-	43.85	3/6/2019	-	-	-	-
	40,000	-	-	35.72	3/8/2020	-	-	-	-
	-	-	-	-	-	28,882	1,667,647	94,363	5,448,520
Mr. Schlonsky	15,000	-	-	43.85	3/6/2019	-	-	-	-
	5,000	-	-	30.82	8/28/2019	-	-	-	-
	20,000	-	-	35.72	3/8/2020	-	-	-	-
	-	-	-	-	-	18,160	1,048,558	48,961	2,827,008
Mr. Robins	-	-	-	-	-	13,247	764,882	28,678	1,655,868

- (1) All stock option awards reflected in this table were made pursuant to the 2012 LTIP. Stock option awards made under the 2012 LTIP vest on the anniversary of the grant date at a rate of 25% per year over the first four years of the seven year option term.

- (2) The awards reported in column (g) reflect the unvested RSUs awarded to the named executive officers in fiscal 2017, fiscal 2016 and fiscal 2015 under the 2012 LTIP. These RSUs will vest at a rate of one third per year over the first three anniversaries of the grant date. The first third of the fiscal 2016 RSU awards and the second third of the fiscal 2015 RSU awards vested during fiscal 2017. For additional information regarding the fiscal 2017 RSU awards, including the vesting terms, see the narrative discussion preceding the Grants of Plan-Based Awards in Fiscal 2017 table and the “Components of our Executive Compensation Program – Long-Term Equity Incentive Compensation” section of the CD&A.
- (3) The awards reported in column (i) reflect the following: (1) for Mr. Campisi, Mr. Johnson, Ms. Bachmann and Mr. Schlonsky, a PSU award in fiscal 2017, fiscal 2016 and fiscal 2015 (each at the target amount) and a restricted stock award in fiscal 2013; and (2) for Mr. Robins, a PSU award in fiscal 2017, fiscal 2016 and fiscal 2015 (each at the target amount). If we achieve the maximum performance levels applicable to the PSU awards in fiscal 2017 and fiscal 2016, the total number of PSUs that would vest and be earned for such PSU awards would be: (1) 217,544 for Mr. Campisi; (2) 53,492 for Mr. Johnson; (3) 68,286 for Ms. Bachmann; (4) 44,578 for Mr. Schlonsky; and (5) 30,697 for Mr. Robins. The fiscal 2015 PSU awards vested on April 4, 2018. For additional information on the fiscal 2015 PSU awards, see the narrative discussion in the “Components of our Executive Compensation Program – Long-Term Equity Incentive Compensation” section of the CD&A.

All awards reported in column (i) were made pursuant to the 2012 LTIP. The first trigger for the fiscal 2013 restricted stock award is EPS of \$1.50 and the second trigger is EPS of \$3.98. Messrs. Johnson and Schlonsky and Ms. Bachmann’s fiscal 2013 restricted stock awards vested on March 12, 2018 and Mr. Campisi’s 2013 restricted stock award vested on April 4, 2018. The actual number of PSUs awarded to each named executive officer in fiscal 2017, fiscal 2016 and fiscal 2015 that will vest and be earned (if any) by each named executive officer is determined after the three-year performance period based: (1) 50% on our average EPS performance, excluding plan-defined items, for each of the three service periods during the performance period; (2) 50% on our average ROIC performance (net operating profit after-tax divided by invested capital for the fiscal year), excluding plan-defined items, for each of the three service periods during the performance period; and (3) on the named executive officer’s continued employment through the end of the performance period (except in the case of death, disability or retirement). For additional information regarding the fiscal 2017 PSU awards, including the vesting terms, see the narrative discussion preceding the Grants of Plan-Based Awards in Fiscal 2017 table and the “Components of our Executive Compensation Program – Long-Term Equity Incentive Compensation” section of the CD&A.

- (4) The market value was computed by multiplying the number of units or shares by \$57.74, the closing price of our common shares on February 3, 2018. If we achieve the maximum performance levels applicable to the PSU awards in fiscal 2017 and fiscal 2016, the aggregate market value for such PSU awards would be: (1) \$12,560,990 for Mr. Campisi; (2) \$3,088,628 for Mr. Johnson; (3) \$3,942,834 for Ms. Bachmann; (4) \$2,573,934 for Mr. Schlonsky; and (5) \$1,772,445 for Mr. Robins. The fiscal 2015 PSU awards vested on April 4, 2018. For additional information on the fiscal 2015 PSU awards, see the narrative discussion in the “Components of our Executive Compensation Program – Long-Term Equity Incentive Compensation” section of the CD&A.

### Option Exercises and Stock Vested in Fiscal 2017

The following table reflects all stock option exercises and the vesting of restricted stock held by each of our named executive officers during fiscal 2017.

Name (a)	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise \$(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting \$(2)
	(b)	(c)	(d)	(e)
Mr. Campisi	28,875	372,808	181,000	8,971,787
Mr. Johnson	20,000	337,200	70,522	3,542,837
Ms. Bachmann	40,000	395,236	83,467	4,258,329
Mr. Schlonsky	15,000	132,900	36,119	1,808,647
Mr. Robins	-	-	4,063	206,797

- (1) The amounts shown reflect the difference between the exercise price of the option and the market price of the common shares at the time of exercise.

- (2) The amounts shown reflect the number of common shares issued to the named executive officer in settlement of the vesting of stock awards multiplied by the closing price of our common shares on trading day before the vesting date.

## Nonqualified Deferred Compensation

### Supplemental Savings Plan

All of our named executive officers, as well as substantially all other full-time employees, are eligible to participate in the Savings Plan, our “401(k) plan.” The Supplemental Savings Plan is maintained for those executives participating in the Savings Plan who desire to contribute more than the amount allowable under the Savings Plan. The Supplemental Savings Plan constitutes a contract to pay deferred compensation and limits deferrals in accordance with prevailing tax law. The Supplemental Savings Plan is designed to pay the deferred compensation in the same amount as if contributions had been made to the Savings Plan. We have no obligation to fund the Supplemental Savings Plan, and all assets and amounts payable under the Supplemental Savings Plan are subject to the claims of our general creditors.

In order to participate in the Savings and Supplemental Savings Plans, an eligible employee must satisfy applicable age and service requirements and must make contributions to such plans (“Participant Contributions”). Participant Contributions are made through authorized payroll deductions to one or more of the several investment funds available under the Savings and Supplemental Savings Plans and selected at the discretion of the participant. All Participant Contributions are matched by us (“Registrant Contributions”) at a rate of 100% for the first 3% of salary contributed and 50% for the next 2% of salary contributed. Additionally, the amount of the Registrant Contribution is subject to the maximum annual compensation that may be taken into account for benefit calculation purposes under the IRC (\$270,000 for calendar year 2017). Accordingly, the maximum aggregate Registrant Contribution that could be made to a named executive officer participating in the Savings and Supplemental Savings Plans was \$10,800 for fiscal 2017.

Prior to fiscal 2017, under the Savings Plan and the Supplemental Savings Plan, 25% of the Registrant Contributions vests annually beginning on the second anniversary of the employee’s hiring. Under the Savings Plan, a participant who has terminated employment with us is entitled to all funds in his or her account, except that if termination is for a reason other than retirement, disability or death, then the participant is entitled to receive only the Participant Contributions and the vested portion of the Registrant Contributions. Under the Supplemental Savings Plan, a participant who has terminated employment with us for any reason is entitled to receive the Participant Contributions and only the vested portion of the Registrant Contributions. Under both plans, all other unvested accrued benefits pertaining to Registrant Contributions will be forfeited. Upon a change in control of Big Lots, the participant will receive a lump sum payment of all amounts (vested and unvested) under the Supplemental Savings Plan.

In fiscal 2017, the Savings Plan and Supplemental Savings Plan were amended and all Registrant Contributions in fiscal 2017 and in the future will vest immediately and a participant in the Savings Plan and Supplemental Savings Plan who has terminated employment will be entitled to all funds in his or her account.

### Nonqualified Deferred Compensation Table for Fiscal 2017

The following table reflects the contributions to, earnings in and balance of each named executive officer’s account held under the Supplemental Savings Plan.

Name (a)	Executive Contributions in Last FY (\$) <sup>(1)</sup> (b)	Registrant Contributions in Last FY (\$) <sup>(2)</sup> (c)	Aggregate Earnings in Last FY (\$) <sup>(3)</sup> (d)	Aggregate Withdrawals/ Distributions (\$) (e)	Aggregate Balance at Last FYE (\$) <sup>(4)</sup> (f)
Mr. Campisi	687,546	1,874	253,919	-	1,880,035
Mr. Johnson	429,205	3,975	265,318	-	1,927,443
Ms. Bachmann	579,972	3,975	144,007	-	1,179,549
Mr. Schlonsky	24,791	981	150,915	-	854,775
Mr. Robins	38,837	3,675	22,156	-	127,222

- (1) The amounts in this column are included in the “Salary” column of the Summary Compensation Table for fiscal 2017.
- (2) The amounts in this column are included in the “All Other Compensation” column of the Summary Compensation Table for fiscal 2017.

- (3) The amounts in this column are not included in the Summary Compensation Table as these amounts reflect only the earnings on the investments designated by the named executive officer in his or her Supplemental Savings Plan account in fiscal 2017 (i.e., appreciation or decline in account value). The amounts in this column do not include any above-market or preferential earnings, as defined by Item 402(c)(2)(viii) of Regulation S-K and the instructions thereto.
- (4) \$761,225, \$500,764, \$41,172, \$64,027, and \$47,955 of the amounts in this column were previously reported as compensation to Mr. Campisi, Mr. Johnson, Ms. Bachmann, Mr. Schlonsky, and Mr. Robins, respectively, in the Summary Compensation Table for the prior years reported.

### **Potential Payments Upon Termination or Change in Control**

The “Rights Under Post-Termination and Change in Control Arrangements” section below summarizes the rights of our named executive officers under their employment agreements and other compensation arrangements upon a change in control or in the event their employment with us is terminated.

The “Estimated Payments if Triggering Event Occurred at 2017 Fiscal Year End” section below sets forth the payments that would have been received by each executive (or his or her beneficiaries, as applicable) upon a change in control or in the event the executive’s employment with us terminated on February 3, 2018: (1) involuntarily without cause (including a constructive termination (as defined in the Severance Plan)); (2) in connection with the executive’s disability; (3) upon the executive’s death; (4) upon the executive’s retirement (only Ms. Bachmann was retirement eligible at the end of fiscal 2017); or (5) in connection with a change in control. We entered into the Retirement Agreement with Mr. Campisi effective as of April 16, 2018. The Retirement Agreement sets forth all of the payments and benefits (including the treatment of outstanding equity awards) that Mr. Campisi will receive in connection with his retirement.

### ***Rights Under Post-Termination and Change in Control Arrangements***

#### ***Termination for Cause***

If a named executive officer who is a party to an employment agreement with us (Ms. Bachmann and, prior to his retirement, Mr. Campisi) is terminated for cause or due to his or her voluntary resignation, we have no obligation under the employment agreement to pay any unearned compensation or to provide any future benefits to the executive; provided, however that, prior to his retirement, Mr. Campisi would have been entitled to the payments and benefits described below in “Involuntary Termination Without Cause” if he terminated for “good reason.”

#### ***Involuntary Termination Without Cause***

If a named executive officer is involuntarily terminated without cause (including a constructive termination), the Severance Plan would entitle the named executive officer to:

- a cash payment equal to the product of (1) the named executive officer’s annualized base salary in effect on the date of termination and (2) a multiple thereof;
- a cash payment equal to a prorated portion of the annual incentive award that the named executive officer would have earned for the fiscal year in which the termination occurred had such termination not occurred;
- a cash payment for outplacement assistance;
- continued coverage for the named executive officer under our health plans until the last day of the calendar month in which the post-termination restriction period applicable to the named executive officer elapses, plus the amount necessary to reimburse the named executive officer for the taxes he or she would be liable for as a result of such continued coverage; and
- prorated vesting of all unvested, outstanding restricted stock awards granted to the named executive officer on or before February 1, 2014 and, upon achievement of the applicable performance trigger, prorated vesting of all unvested, outstanding RSU awards granted to the named executive officer.

#### ***Termination due to Disability or Death***

If a named executive officer is terminated as a result of his or her disability or death:

- the Severance Plan would entitle the named executive officer to a cash payment equal to a prorated portion of the annual incentive award that the named executive officer would have earned for the fiscal year in which the termination occurred had such termination not occurred;

- unvested restricted stock awards granted under the 2012 LTIP would vest in increments of 20% for each consecutive year of employment completed since the grant date if the first trigger is met while employed;
- unvested stock options granted under the 2012 LTIP in and after fiscal 2009 would vest on the date of termination, provided that the date of termination occurs at least six months following the grant date;
- a prorated portion of the unvested PSUs granted under the 2012 LTIP that the named executive officer would have earned had the named executive officer remained employed for the entire performance period would vest upon the certification of the applicable performance condition; and
- a prorated portion of the unvested RSUs granted under the 2012 LTIP would vest on the termination date.

In addition, prior to his retirement, all of Mr. Campisi's unvested, outstanding service-based equity awards and RSUs granted after February 1, 2014 would have become fully vested pursuant to his employment agreement if his employment with us had terminated as a result of his disability or death.

#### *Termination Upon Retirement*

If a named executive officer is terminated as a result of his or her retirement (as defined in the applicable award agreement):

- a prorated portion of the unvested PSUs granted under the 2012 LTIP that the named executive officer would have earned had the named executive officer remained employed for the entire performance period would vest upon the certification of the applicable performance condition; and
- if the performance condition is satisfied before the third anniversary of the grant date, a prorated portion of the unvested RSUs granted under the 2012 LTIP would vest on the termination date.

In addition, Mr. Campisi's employment agreement provided that if he retired after May 3, 2020:

- Mr. Campisi would have been eligible (based on our achievement of at least the threshold performance goal) to receive a prorated annual incentive award for the fiscal year in which his termination is effective;
- all of Mr. Campisi's unvested, outstanding service-based equity awards and RSUs granted for which the performance condition has been satisfied would have continued to vest for 24 months after the date of termination and any such awards and units that vest more than 24 months after the date of termination would have been forfeited; and
- a pro rata portion of Mr. Campisi's unvested, outstanding performance-based equity awards would have vested. The pro rata portion would have been determined by (1) multiplying the amount of such award or grant that would have been earned had Mr. Campisi remained employed through the last vesting date under such award or grant by (2) a fraction, the denominator of which would have been the total number of days between the grant date of the award and the last vesting date under such award and the numerator of which would have been the number of days between the grant date of the award and Mr. Campisi's termination date plus 730, provided such fraction would never exceed 1.00. 730 would have been added to the numerator, as it was the equivalent number of days to the 24 months of continued vesting used for Mr. Campisi's service-based equity grants and RSUs equivalent to the time Mr. Campisi would have been subject to the restrictive covenants imposed by his employment agreement.

#### *Termination in connection with Change in Control*

If terminated without cause (including a constructive termination) within 24 months after a change in control, the senior executive severance agreements would entitle Mr. Johnson, Mr. Schlonsky and Mr. Robins to (1) a lump-sum payment equal to 200% of the executive's then current annual base salary and maximum annual incentive award and (2) continued coverage under our health plans for up to one year after the date of termination.

If terminated without cause (including a constructive termination and, in the case of Mr. Campisi prior to his retirement, termination for good reason), the employment agreements would entitle Ms. Bachmann and, prior to his retirement, would have entitled Mr. Campisi to (1) a lump-sum payment equal to 200% of the highest annual base salary and maximum annual incentive award in effect during the three months before and the 24 months after the change in control and (2) continued coverage under our health plans for up to two years after the date of termination, plus the amount necessary to reimburse him or her for the taxes he or she would be liable for as a result of such continued healthcare coverage.

In addition, upon a change in control:

- all unvested restricted stock awards granted to the named executive officer under the 2012 LTIP would vest;
- all unvested stock options granted to the named executive officer under the 2012 LTIP would vest;
- if the change in control occurs before the third anniversary of the grant date, all unvested RSUs granted to the named executive officer under the 2012 LTIP would vest; and
- if the change of control occurs before the end of the applicable performance period, the greater of (1) the target number of PSUs and (2) a number of PSUs calculated based on the satisfaction of the applicable performance conditions before the change in control, would vest for each named executive officer.

Upon a change in control, each participating named executive officer would also receive a lump sum payment of all vested and unvested amounts under the Supplemental Savings Plan. (See the “Nonqualified Deferred Compensation” section above for more information regarding the Supplemental Savings Plan and our named executive officers’ aggregate balances under such plans at the end of fiscal 2017.)

#### *Change in Control Described*

Generally, pursuant to the 2012 LTIP, the 2017 LTIP, the Supplemental Savings Plan (as to amounts earned and vested before January 1, 2005, including earnings attributable to such amounts) and the Severance Plan, a change in control is deemed to occur if:

- any person or group (as defined in Section 13(d) under the Exchange Act) becomes the beneficial owner, or has the right to acquire, 20% or more of our outstanding voting securities;
- a majority of the Board is replaced within any two-year period 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
- our shareholders approve an agreement to merge or consolidate with an unrelated company or an agreement to sell or otherwise dispose of all or substantially all of our assets to an unrelated company, except pursuant to the terms of the 2012 LTIP, the 2017 LTIP and the Severance Plan, which requires the consummation of a merger or consolidation with another entity or the sale or other disposition of all or substantially all of our assets (including, without limitation, a plan of liquidation), which has been approved by our shareholders.

Consistent with the provisions of Section 409A (“Section 409A”) of the IRC, pursuant to our named executive officers’ employment agreements, the senior executive severance agreements, the 2006 Bonus Plan and the Supplemental Savings Plan (as to all amounts earned and vested on or after January 1, 2005), a change in control is deemed to occur upon:

- the acquisition by any person or group (as defined under Section 409A) of our common shares that, together with any of our common shares then held by such person or group, constitutes more than 50% of the total fair market value or voting power in our outstanding voting securities;
- the acquisition by any person or group, within any one year period, of 30% or more of our outstanding voting securities;
- a majority of the Board is replaced during any one year period by directors whose appointment or election is not endorsed by a majority of the directors in office prior to the date of such appointment or election; or
- the acquisition by any person or group, within any one year period, of 40% or more of the total gross fair market value of all of our assets, as measured immediately prior to such acquisition(s).

Notwithstanding the foregoing definitions, pursuant to our named executive officers’ employment agreements, senior executive severance agreements, the 2012 LTIP, the 2017 LTIP, the 2006 Bonus Plan and the Severance Plan, a change in control does not include any transaction, merger, consolidation or reorganization in which we exchange, or offer to exchange, newly issued or treasury shares in an amount less than 50% of our then-outstanding voting securities for 51% or more of the outstanding voting securities of an unrelated company or for all or substantially all of the assets of such unrelated company.

### **Estimated Payments if Triggering Event Occurred at 2017 Fiscal Year-End**

The amounts in the following tables are approximations based on various assumptions and estimates. The actual amounts to be paid can only be determined at the time of the change in control or termination of employment, as applicable. In the tables that follow, we have made the following material assumptions, estimates and characterizations:

- Except as otherwise provided in the tables below, the amounts are calculated based on compensation levels and benefits effective at February 3, 2018, the last day of fiscal 2017.
- We have not taken into account the possibility that a named executive officer may be eligible to receive healthcare benefits from another source following his or her termination. Therefore, the amounts shown in the "Healthcare Coverage" row in the tables below reflect, consistent with the assumptions that would be used to estimate the cost of these benefits for financial reporting purposes under generally accepted accounting principles, the current monthly cost to provide continued healthcare coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") applied to each month these benefits would be provided to the named executive officer. Included in the amounts shown in the "Healthcare Coverage" row in the tables below are the related tax gross-up amounts. The amounts shown in the "Long-Term Disability Benefit" row in the tables below represent 67% of the named executive officer's monthly salary, up to a maximum of \$25,000 per month in accordance with the long-term disability insurance we maintain for our named executive officers. This benefit is payable until the named executive officer is no longer disabled or age 65, whichever occurs earlier. Due to the speculative nature of estimating the period of time during which a named executive officer may be disabled, we have presented only one month of disability benefits in the tables below.
- The amounts in the "Accelerated Equity Awards" row under the "Termination upon Disability" and "Termination upon Death" columns in the tables below represent the value (as of the final trading day on the NYSE during fiscal 2017) of (1) 80% of the unvested restricted stock awarded to each named executive officer in fiscal 2013, (2) all of the unvested stock options awarded to our named executive officers in and after our 2011 fiscal year, (3) a prorated portion of the unvested RSUs granted under the 2012 LTIP, (4) a prorated portion of the unvested PSUs granted under the 2012 LTIP in fiscal 2016 and fiscal 2017 assuming that the applicable performance goals will be achieved at the target level, and (5) the PSUs granted under the 2012 LTIP in fiscal 2015, that will vest based on our actual performance. If termination of employment resulted from death or disability, the unvested restricted stock awards made under the 2012 LTIP will vest in increments of 20% for each consecutive year of employment completed since the grant date if the first trigger is met while employed. The first trigger for the restricted stock awarded to the named executive officers in fiscal 2013 was met as a result of our performance in fiscal 2013. Accordingly, 80% of the fiscal 2013 restricted stock award awarded to each named executive officer would have vested at the end of fiscal 2017 had the executive's employment terminated on such date as a result of their death or disability. Messrs. Johnson and Schlonsky and Ms. Bachmann's fiscal 2013 restricted stock awards vested on March 12, 2018 and Mr. Campisi's fiscal 2013 restricted stock award vested on April 4, 2018. In addition, if Mr. Campisi's employment had terminated prior to his retirement as a result of his disability or death, all of Mr. Campisi's unvested, outstanding service-based equity awards and RSUs granted after February 1, 2014 would have become fully vested upon termination. If a named executive officer dies or becomes disabled before the last scheduled vesting date of a stock option awarded in and after our 2009 fiscal year, the then-remaining unvested portion of that stock option award will vest on the day such event occurred, provided such event occurred at least six months following the grant date. The amounts in the "Accelerated Equity Awards" row under the "Retirement" columns in the tables below represent the value (as of the final trading day of fiscal 2017) of (1) a prorated portion of the unvested RSUs granted under the 2012 LTIP, (2) a prorated portion of the unvested PSUs granted under the 2012 LTIP in fiscal 2016 and fiscal 2017 assuming that the applicable performance goals will be achieved at the target level and (3) the PSUs granted under the 2012 LTIP in fiscal 2015 that vested based on our actual performance.
- The amounts in the "Accelerated Equity Awards" row under the "Termination in Connection with a Change in Control" and "Change in Control (without termination)" columns in the tables below include the value of all unvested stock options that were in-the-money at the end of fiscal 2017 (i.e., the closing market price of our common shares on the final trading day of fiscal 2017 less the applicable exercise price) and all unvested restricted stock, RSUs and PSUs that would have vested on an accelerated basis had a change in control occurred as of the end of fiscal 2017. These amounts do not reflect any equity awards that vested in fiscal 2017.
- The closing market price of our common shares on the final trading day on the NYSE during fiscal 2017 was \$57.74 per share.

*David J. Campisi*

The following table reflects the payments that would have been due to Mr. Campisi in the event of a change in control and/or the termination of his employment on February 3, 2018.

Event Occurring at February 3, 2018							
	Voluntary Termination/ For Cause (\$)	Involuntary Termination without Cause (\$)	Retirement (\$)	Termination upon Disability (\$)	Termination upon Death (\$)	Termination in Connection with a Change in Control (\$)	Change in Control (without termination) (\$)
Salary/Salary Continuation (\$)	-	2,300,000	-	-	-	2,300,000	-
Non-Equity Incentive Plan Compensation (\$)	-	1,233,824	-	1,233,824	1,233,824	5,980,000	-
Healthcare Coverage (\$)	-	73,628	-	-	-	73,628	-
Long-Term Disability Benefit (\$)	-	-	-	25,000	-	-	-
Outplacement Benefits (\$)	-	40,000	-	-	-	-	-
Accelerated Equity Awards (\$)	-	4,741,286	-	16,974,898	16,974,898	22,934,522	22,934,522
Excise Tax Benefit (\$)	-	-	-	-	-	-	-
Total (\$)	-	8,388,738	-	18,233,722	18,208,722	31,288,150	22,934,522

We entered into the Retirement Agreement with Mr. Campisi effective as of April 16, 2018. The Retirement Agreement sets forth all of the payments and benefits (including the treatment of outstanding equity awards) that Mr. Campisi will receive in connection with his retirement

*Timothy A. Johnson*

The following table reflects the payments that would have been due to Mr. Johnson in the event of a change in control and/or the termination of his employment with us on February 3, 2018.

Event Occurring at February 3, 2018							
	Voluntary Termination/ For Cause (\$)	Involuntary Termination without Cause (\$)	Retirement (\$)	Termination upon Disability (\$)	Termination upon Death (\$)	Termination in Connection with a Change in Control (\$)	Change in Control (without termination) (\$)
Salary/Salary Continuation (\$)	-	1,196,700	-	-	-	1,196,700	-
Non-Equity Incentive Plan Compensation (\$)	-	296,291	-	296,291	296,291	1,436,040	-
Healthcare Coverage (\$)	-	73,628	-	-	-	40,301	-
Long-Term Disability Benefit (\$)	-	-	-	25,000	-	-	-
Outplacement Benefits (\$)	-	25,000	-	-	-	-	-
Accelerated Equity Awards (\$)	-	2,408,179	-	4,253,999	4,253,999	6,805,552	6,805,552
Excise Tax Benefit (\$)	-	-	-	-	-	3,062,542	-
Total (\$)	-	3,999,798	-	4,575,290	4,550,290	12,541,135	6,805,552



*Lisa M. Bachmann*

The following table reflects the payments that would have been due to Ms. Bachmann in the event of a change in control and/or the termination of her employment with us on February 3, 2018.

	Event Occurring at February 3, 2018						
	Voluntary Termination/ For Cause (\$)	Involuntary Termination without Cause (\$)	Retirement (\$)	Termination upon Disability (\$)	Termination upon Death (\$)	Termination in Connection with a Change in Control (\$)	Change in Control (without termination) (\$)
Salary/Salary Continuation (\$)	-	1,527,700	-	-	-	1,527,700	-
Non-Equity Incentive Plan Compensation (\$)	-	378,243	-	378,243	378,243	1,833,240	-
Healthcare Coverage (\$)	-	73,628	-	-	-	73,628	-
Long-Term Disability Benefit (\$)	-	-	-	25,000	-	-	-
Outplacement Benefits (\$)	-	25,000	-	-	-	-	-
Accelerated Equity Awards (\$)	-	2,578,017	3,563,543	5,023,943	5,023,943	8,180,079	8,180,079
Excise Tax Benefit (\$)	-	-	-	-	-	-	-
Total (\$)	-	4,582,588	3,563,543	5,427,186	5,402,186	11,614,647	8,180,079

*Michael A. Schlonsky*

The following table reflects the payments that would have been due to Mr. Schlonsky in the event of a change in control and/or the termination of his employment with us on February 3, 2018.

	Event Occurring at February 3, 2018						
	Voluntary Termination/ For Cause (\$)	Involuntary Termination without Cause (\$)	Retirement (\$)	Termination upon Disability (\$)	Termination upon Death (\$)	Termination in Connection with a Change in Control (\$)	Change in Control (without termination) (\$)
Salary/Salary Continuation (\$)	-	997,250	-	-	-	997,250	-
Non-Equity Incentive Plan Compensation (\$)	-	246,909	-	246,909	246,909	1,196,700	-
Healthcare Coverage (\$)	-	73,628	-	-	-	40,187	-
Long-Term Disability Benefit (\$)	-	-	-	25,000	-	-	-
Outplacement Benefits (\$)	-	25,000	-	-	-	-	-
Accelerated Equity Awards (\$)	-	1,072,099	-	2,556,263	2,556,263	4,480,024	4,480,024
Excise Tax Benefit (\$)	-	-	-	-	-	2,538,964	-
Total (\$)	-	2,414,886	-	2,828,172	2,803,172	9,253,125	4,480,024

Ronald A. Robins, Jr.

The following table reflects the payments that would have been due to Mr. Robins in the event of a change in control and/or the termination of his employment with us on February 3, 2018.

	Event Occurring at February 3, 2018						
	Voluntary Termination/ For Cause (\$)	Involuntary Termination without Cause (\$)	Retirement (\$)	Termination upon Disability (\$)	Termination upon Death (\$)	Termination in Connection with a Change in Control (\$)	Change in Control (without termination) (\$)
Salary/Salary Continuation (\$)	-	920,000	-	-	-	920,000	-
Non-Equity Incentive Plan Compensation (\$)	-	227,783	-	227,783	227,783	1,104,000	-
Healthcare Coverage (\$)	-	73,628	-	-	-	39,518	-
Long-Term Disability Benefit (\$)	-	-	-	25,000	-	-	-
Outplacement Benefits (\$)	-	25,000	-	-	-	-	-
Accelerated Equity Awards (\$)	-	319,795	-	1,517,198	1,517,198	2,818,040	2,818,040
Excise Tax Benefit (\$)	-	-	-	-	-	2,234,010	-
Total (\$)	-	1,566,206	-	1,769,981	1,744,981	7,115,568	2,818,040

**PROPOSAL TWO: APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO ITEM 402 OF REGULATION S-K, INCLUDING THE CD&A, COMPENSATION TABLES AND THE NARRATIVE DISCUSSION ACCOMPANYING THE TABLES**

Section 14A of the Exchange Act requires that we provide our shareholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with the compensation disclosure rules of the SEC. The following summary of our executive compensation program describes our compensation philosophy and the key objectives identified by our Compensation Committee to implement our compensation philosophy.

Our executive compensation program is designed to: (1) pay for superior results by rewarding executives for achieving short- and long-term performance goals and creating long-term shareholder value; (2) align the interests of our executives and our shareholders through performance- and equity-based compensation; and (3) attract and retain talented executives by paying compensation that is competitive with the compensation paid by the companies in our peer group. We use a balanced mix of salary, annual cash incentive awards and equity awards to promote these objectives. For a more detailed discussion of how our executive compensation program promotes these objectives and our executive compensation philosophy, including information about the fiscal 2017 compensation of our named executive officers, we encourage you to read the CD&A as well as the Summary Compensation Table and other compensation tables in this Proxy Statement and the narrative discussion accompanying the tables.

In fiscal 2017, we continued to focus on improving our financial and operating performance. Given the commitment of the Compensation Committee and other outside directors to a pay-for-performance philosophy and our focus on improving our financial and operating performance in fiscal 2017, the Compensation Committee and other outside directors structured a significant portion of the compensation awarded to our named executive officers for fiscal 2017 as “at risk” or “variable” and dependent on our performance and/or the value of our common shares, including:

- *Annual Cash Incentive Awards.* Each named executive officer was eligible to receive a cash performance bonus based solely on our adjusted operating profit. The Compensation Committee and other outside directors selected adjusted operating profit as the sole financial measure because they believe it represents a key indicator of the strength of our operating results and financial condition and incentivizes the participants in our annual cash incentive award program to achieve strong earnings growth. The fiscal 2017 annual incentive awards were structured so that the target bonus would be earned only if we achieved the operating profit for fiscal 2017 projected in our annual corporate operating plan. Based on our \$298,782,210 adjusted operating profit in fiscal 2017, our named executive officers earned an annual incentive award for fiscal 2017 equal to 82.53% of their respective target bonus.

- *Performance Share Unit Awards.* All of our named executive officers received a significant portion (60%) of their equity awards in the form of PSUs. The PSUs awarded to our named executive officers in fiscal 2017 will vest, if at all, after the completion of a three-year performance period based: (1) 50% on our average EPS performance, excluding plan-defined items, for each of the three service periods during the performance period; (2) 50% on our average ROIC performance, excluding plan-defined items, for each of the three service periods during the performance period; and (3) on the named executive officer's continued employment through the end of the performance period. The Compensation Committee and other outside directors selected EPS and ROIC as the financial measures applicable to the PSUs to incentivize our named executive officers to achieve long-term financial results that we believe will create shareholder value. Based on EPS of \$4.27 and ROIC of 22.74%, as adjusted, we achieved 104.15% of the targeted goal for EPS and 96.77% of the targeted goal for ROIC for the first service period of the performance period applicable to the PSUs awarded to our named executive officers in fiscal 2017.
- *Restricted Stock Unit Awards.* RSUs are primarily intended to align the interests of our named executive officers and our shareholders and help retain and motivate our named executive officers. The RSUs will vest ratably over three years from the grant date of the award if the participant remains employed by us through each annual vesting date and are subject to an operating profit performance component.

We request that our shareholders indicate their support for the compensation of our named executive officers as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K by approving the following resolution:

“RESOLVED, that the shareholders of Big Lots approve, on an advisory basis, the compensation of the named executive officers of Big Lots, as disclosed in Big Lots’ Proxy Statement for the 2018 Annual Meeting of Shareholders pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and the narrative discussion accompanying the tables.”

The vote on the approval of the compensation of our named executive officers is advisory, which means that the vote is not binding on the Board, the Compensation Committee or us. If a majority of the votes are cast against the approval of the compensation of our named executive officers, the Board and the Compensation Committee will evaluate whether to take any actions to address the concerns of the shareholders with respect to our executive compensation program.

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO ITEM 402 OF REGULATION S-K, INCLUDING THE CD&A, COMPENSATION TABLES AND THE NARRATIVE DISCUSSION ACCOMPANYING THE TABLES.**

## 2017 CEO PAY RATIO

Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 402(u) of Regulation S-K require the Company to disclose the following information for our 2017 fiscal year:

- the annual total compensation of our CEO (David J. Campisi) was \$8,345,512;
- the annual total compensation of our median employee was \$8,780; and
- the ratio of the annual total compensation of our CEO to the annual total compensation of our median employee was 951 to 1.

To identify the median of the annual total compensation of our active employees as of February 3, 2018, including any full-time, part-time, temporary or seasonal employees but excluding our CEO, we used total wages from our payroll records as reported to the Internal Revenue Service on Form W-2 for 2017. In making this determination, we did not annualize compensation for any full-time or part-time permanent employees who were employed on February 3, 2018 but did not work for us the entire year or make any full-time equivalent adjustments for part-time employees. We consistently applied this compensation measure and methodology to all of our employees included in the calculation.

After identifying our median employee, who was calculated to be a part-time store associate, we determined the median employee's annual total compensation in the same manner that we determine the total compensation of our named executive officers for purposes of the Summary Compensation Table. With respect to the annual total compensation of our CEO, we used the amount for 2017 reported in the "Total" column of the Summary Compensation Table.

This information is being provided for compliance purposes. Neither the Compensation Committee nor management of the Company used the pay ratio measure in making compensation decisions.

## AUDIT COMMITTEE DISCLOSURE

### General Information

The Audit Committee consists of five non-employee directors of the Board. The members of the Audit Committee have been reviewed by the Board and determined to be independent within the meaning of all applicable SEC regulations and NYSE listing standards.

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

- the integrity of our financial statements and financial reporting process, and our systems of internal accounting and financial controls;
- our compliance with legal and regulatory requirements, including our disclosure controls and procedures;
- the annual independent audit of our financial statements, the engagement of our independent registered public accounting firm, and the evaluation of the firm's qualifications, independence and performance;
- the performance of our 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 Audit Committee's charter is available in the Investor Relations section of our website ([www.biglots.com](http://www.biglots.com)) under the "Corporate Governance" caption. The Audit Committee regularly reviews its responsibilities as outlined in its charter, prepares an annual agenda that addresses all of its responsibilities and conducts a self-assessment and review of the charter annually. The Audit Committee believes it fulfilled its responsibilities under the charter in fiscal 2017.

The Audit Committee schedules its meetings with a view towards ensuring that it devotes appropriate attention to all of its responsibilities. The Audit Committee's meetings include, whenever appropriate, executive sessions with the independent registered public accounting firm, the Company's Vice President, Internal Audit and our Chief Financial Officer, in each case without the presence of management. The Audit Committee also meets in executive session without the presence of anyone else, whenever appropriate.

During fiscal 2017, internal audit completed the documentation, testing and evaluation of our 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 Audit Committee was apprised of the progress of the evaluation and provided oversight and advice to management during the process. In connection with its oversight, the Audit Committee received periodic updates provided by internal audit and the independent registered public accounting firm at each regularly scheduled Audit Committee meeting. The Audit Committee also reviewed the report of management contained in our Form 10-K, as well as the independent registered public accounting firm's Report of Independent Registered Public Accounting Firm included in our Form 10-K related to its audit of (1) our financial statements and (2) the effectiveness of our internal control over financial reporting. The Audit Committee continues to oversee efforts related to our system of internal control over financial reporting and management's preparations for the evaluation thereof in fiscal 2018. The Audit Committee has also reviewed key initiatives and programs aimed at strengthening the effectiveness of our internal and disclosure control structure.

### Independent Registered Public Accounting Firm

The Audit Committee engaged Deloitte & Touche LLP as our independent registered public accounting firm to audit our financial statements for fiscal 2017. Deloitte & Touche LLP has served as our independent registered public accounting firm since October 1989. The Audit Committee annually selects and evaluates our independent registered public accounting firm and reviews the scope of and plans for the audit by the independent registered public accounting firm. Some of the factors the Audit Committee considers in its evaluation include the independent auditor's qualifications, performance, independence and tenure. Based on its evaluation and review, the Audit Committee believes that it is in the best interest of the Company to retain Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2018.

## Audit and Non-Audit Services Pre-Approval Policy

Pursuant to the Audit Committee's Audit and Non-Audit Services Pre-Approval Policy, all audit and non-audit services rendered by Deloitte & Touche LLP in fiscal 2017, including the related fees, were pre-approved by the Audit Committee. Under the policy, the Audit Committee is required to pre-approve all audit and permissible non-audit services performed by the independent registered public accounting firm to assure that the provision of those services does not impair the firm's independence. Pre-approval is detailed as to the particular service or category of service and is subject to a specific engagement authorization. The Audit Committee requires the independent registered public accounting firm and management to report on the actual fees incurred for each category of service at Audit Committee meetings throughout the year.

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

## Fees Paid to Independent Registered Public Accounting Firm

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

<i>(\$ in thousands)</i>	<u>Fiscal 2016</u> <u>(\$)</u>	<u>Fiscal 2017</u> <u>(\$)</u>
Audit Fees	1,355	1,472
Audit-Related Fees (1)	15	157
Tax Fees	77	40
All Other Fees (2)	<u>2</u>	<u>2</u>
Total Fees	1,449	1,671

(1) For fiscal 2016 and fiscal 2017, the audit-related fees principally related to accounting consultation.

(2) For fiscal 2016 and fiscal 2017, the other fees include fees related to online subscription fees for technical support.

## Audit Committee Report

The Audit Committee has reviewed and discussed the audited financial statements for fiscal 2017 with management and the independent registered public accounting firm. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Auditing Standard No. 1031, as adopted by the Public Company Accounting Oversight Board. The Audit Committee has received the written communications from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and has discussed with the independent registered public accounting firm its independence. Based on these reviews and discussions, the undersigned members of the Audit Committee recommended to the Board that the audited consolidated financial statements for fiscal 2017 be included in our Form 10-K for filing with the SEC.

### Members of the Audit Committee

Philip E. Mallott, Chair  
Marla C. Gottschalk  
Cynthia T. Jamison  
Wendy L. Schoppert  
Russell E. Solt

## **PROPOSAL THREE: RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2018**

At its March 6, 2018 meeting, the Audit Committee appointed Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2018, subject to our entry into a mutually agreed upon services contract with Deloitte & Touche LLP. The submission of this matter for approval by shareholders is not legally required; however, we believe that such submission is consistent with best practices in corporate governance and is another opportunity for shareholders to provide direct feedback on an important issue of our corporate governance. If the shareholders do not ratify the appointment of Deloitte & Touche LLP, the selection of such firm as our independent registered public accounting firm will be reconsidered by the Audit Committee.

A representative of Deloitte & Touche LLP will be present at the Annual Meeting to respond to appropriate questions and to make a statement if so desired.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2018.**

### **SHAREHOLDER PROPOSALS**

Any proposals of shareholders which are intended to be presented at our 2019 annual meeting of shareholders must be received by our Corporate Secretary at our corporate offices on or before December 21, 2018 to be eligible for inclusion in our 2019 proxy statement and form of proxy. Such proposals must be submitted in accordance with Rule 14a-8 of the Exchange Act. If a shareholder intends to present a proposal at our 2019 annual meeting of shareholders without inclusion of that proposal in our 2019 proxy materials and written notice of the proposal is not received by our Corporate Secretary at our corporate offices on or before March 6, 2019, or if we meet other requirements of the SEC rules, proxies solicited by the Board for our 2019 annual meeting of shareholders will confer discretionary authority on the proxy holders named therein to vote on the proposal at the meeting.

### **PROXY SOLICITATION COSTS**

This solicitation of proxies is made by and on behalf of the Board. In addition to mailing the Notice of Internet Availability (or, if applicable, paper copies of this Proxy Statement, the Notice of Annual Meeting of Shareholders and the proxy card) to shareholders of record on the record date, the brokers and banks holding our common shares for beneficial holders must, at our expense, provide our proxy materials to persons for whom they hold our common shares in order that such common shares may be voted. Solicitation of proxies may also be made by our officers and regular employees personally or by telephone, mail or electronic mail. Officers and employees who assist with solicitation will not receive any additional compensation. The cost of the solicitation will be borne by us. We have also retained Georgeson LLC to aid in the solicitation of proxies for a fee estimated to be \$7,500, plus reasonable out-of-pocket expenses.

### **OTHER MATTERS**

As of the date of this Proxy Statement, we know of no business that will be presented for consideration at the Annual Meeting other than as referred to in Proposal One, Proposal Two and Proposal Three above. If any other matter is properly brought before the Annual Meeting for action by shareholders, common shares represented by proxies returned to us and not revoked will be voted on such matter in accordance with the recommendations of the Board.

By order of the Board of Directors,

Ronald A. Robins, Jr.  
*Senior Vice President, General Counsel and  
Corporate Secretary*

April 20, 2018  
Columbus, Ohio

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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 **February 3, 2018**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8897

**BIG LOTS, INC.**

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

06-1119097

(I.R.S. Employer Identification No.)

300 Phillipi Road, P.O. Box 28512, Columbus, Ohio

(Address of principal executive 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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Shares \$0.01 par value	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained to the best of 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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 \$2,105,403,532 on July 29, 2017, 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, \$0.01 par value, outstanding as of March 30, 2018, was 42,182,744.

**Documents Incorporated by Reference**

Portions of the Registrant's Proxy Statement for its 2018 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 FEBRUARY 3, 2018**

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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” except as used in the reports of our independent registered public accounting firm included in Item 8 of this Annual Report on Form 10-K (“Form 10-K”)), is a community retailer operating in the United States (“U.S.”) (see the discussion below under the caption “Merchandise”). At February 3, 2018, we operated a total of 1,416 stores. Our goal is to exceed the expectations of our core customer (whom we refer to as Jennifer) by providing her with great savings on value-priced merchandise, which includes tasteful and “trend-right” import merchandise, consistent and replenishable “never out” offerings, and brand-name closeouts. We are dedicated to providing Jennifer with friendly service, trustworthy value, and affordable solutions in every season and category.

Similar to many other retailers, our fiscal year ends on the Saturday nearest to January 31, which results in some fiscal years being comprised of 52 weeks and some fiscal years being comprised of 53 weeks. Unless otherwise stated, references to years in this Form 10-K relate to fiscal years rather than to calendar years. The following table provides a summary of our fiscal year calendar and the associated number of weeks in each fiscal year:

<b>Fiscal Year</b>	<b>Number of Weeks</b>	<b>Year Begin Date</b>	<b>Year End Date</b>
2018	52	February 4, 2018	February 2, 2019
2017	53	January 29, 2017	February 3, 2018
2016	52	January 31, 2016	January 28, 2017
2015	52	February 1, 2015	January 30, 2016
2014	52	February 2, 2014	January 31, 2015
2013	52	February 3, 2013	February 1, 2014

We manage our business on the basis of one segment: discount retailing. We evaluate and report overall sales and merchandise performance based on the following key merchandising categories: Furniture, Seasonal, Soft Home, Food, Consumables, Hard Home, and Electronics, Toys, & Accessories. The Furniture category includes our upholstery, mattress, case goods, and ready-to-assemble departments. The Seasonal category includes our Christmas trim, lawn & garden, summer, and other holiday departments. The Soft Home category includes our fashion bedding, utility bedding, bath, window, decorative textile, home organization, area rugs, home décor, and frames departments. The Food category includes our beverage & grocery, candy & snacks, and specialty foods departments. The Consumables category includes our health, beauty and cosmetics, plastics, paper, chemical, and pet departments. The Hard Home category includes our small appliances, table top, food preparation, stationery, greeting cards, and home maintenance departments. The Electronics, Toys, & Accessories category includes our electronics, toys, jewelry, and hosiery departments. Please refer to the consolidated financial statements and related notes in this Form 10-K for our financial information. Specifically, see note 1 to the accompanying consolidated financial statements for our net sales results by merchandise category for 2017, 2016, and 2015.

In May 2001, Big Lots, Inc. was incorporated in Ohio and was the surviving entity in a merger with Consolidated Stores Corporation. By virtue of the merger, Big Lots, Inc. succeeded to all the businesses, 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. In May 2018, our principal executive offices will have a new address and move to 4900 E. Dublin-Granville Road, Columbus, Ohio 43081.

## Merchandise

We focus our merchandise strategy on providing outstanding value to Jennifer in all of our merchandise categories. We utilize traditional sourcing methods and also take advantage of closeout channels to be able to offer outstanding value. We evaluate our product offerings using a rating process that measures the quality, brand, fashion, and value of each item. This process requires us to focus our product offering decisions on our customers' expectations and enables us to compare the potential performance of traditionally-sourced merchandise, either domestic or import, to closeout merchandise, which is generally sourced from production overruns, packaging changes, discontinued products, order cancellations, liquidations, returns, and other disruptions in the supply chain of manufacturers. We believe that enhancing our focus on our customers' expectations has improved our ability to provide a desirable assortment of offerings in our merchandise categories. For net sales and comparable store sales by merchandise category, see the discussion below under the captions "2017 Compared To 2016" and "2016 Compared To 2015" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") of this Form 10-K.

## Real Estate

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

	2017	2016	2015	2014	2013
Stores open at the beginning of the year	1,432	1,449	1,460	1,493	1,495
Stores opened during the year	24	9	9	24	55
Stores closed during the year	(40)	(26)	(20)	(57)	(57)
Stores open at the end of the year	1,416	1,432	1,449	1,460	1,493

For additional information about our real estate strategy, see the discussion under the caption "Operating Strategy - Real Estate" in the accompanying MD&A in this Form 10-K.

The following table details our U.S. stores by state at February 3, 2018:

Alabama	29	Maine	6	Ohio	96
Arizona	34	Maryland	26	Oklahoma	18
Arkansas	11	Massachusetts	21	Oregon	15
California	151	Michigan	45	Pennsylvania	67
Colorado	18	Minnesota	6	Rhode Island	1
Connecticut	14	Mississippi	14	South Carolina	34
Delaware	5	Missouri	25	Tennessee	47
Florida	104	Montana	3	Texas	112
Georgia	53	Nebraska	3	Utah	8
Idaho	6	Nevada	13	Vermont	4
Illinois	34	New Hampshire	7	Virginia	38
Indiana	44	New Jersey	27	Washington	26
Iowa	3	New Mexico	12	West Virginia	16
Kansas	8	New York	63	Wisconsin	10
Kentucky	40	North Carolina	72	Wyoming	2
Louisiana	23	North Dakota	1	District of Columbia	1
				<b>Total stores</b>	<b>1,416</b>
				<b>Number of states</b>	<b>47</b>

Of our 1,416 stores, 33% operate in four states: California, Texas, Florida, and Ohio, and net sales from stores in these states represented 34% of our 2017 net sales. We have a concentration in these states based on their size, population, and customer base.

## **Associates**

At February 3, 2018, we had approximately 34,800 active associates comprised of 11,000 full-time and 23,800 part-time associates. Approximately 68% of the associates employed throughout the year are employed on a part-time basis. Temporary associates hired for the holiday selling season increased the number of associates to a peak of approximately 38,100 in 2017. We consider our relationship with our associates to be good, and we are not a party to any labor agreements.

## **Competition**

We operate in the highly competitive retail industry. We face strong sales competition from other general merchandise, discount, food, furniture, arts and crafts, and dollar store retailers, which operate in traditional brick and mortar stores and/or online. Additionally, we compete with a number of companies for retail site locations, to attract and retain quality employees, and to acquire our broad merchandising assortment from vendors. We operate an e-commerce platform which faces additional challenges from a wider range of retailers in a highly competitive market.

## **Purchasing**

The goal of our merchandising strategy is to consistently provide outstanding value to our customers in all of our merchandise categories. We believe that we have achieved this goal by reducing our reliance on sourcing merchandise through closeout offerings and expanding our planned purchases in most merchandise categories. In particular, over the past few years, we have expanded our planned purchases in our Food, Consumables, Soft Home, and Furniture merchandise categories to provide a merchandise assortment that our customers expect us to consistently offer in our stores at a significant value. In connection with the implementation of our merchandising strategy, we have expanded the role of our global sourcing department, and assessed our overseas vendor relationships. We expect our import partners to responsibly source goods that our merchandising teams identify as having our desired mix of quality, fashion, and value. During 2017, we purchased approximately 23% of our merchandise directly from overseas vendors, including approximately 19% 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 described in “Item 1A. Risk Factors” of this Form 10-K.

Although less prevalent in certain merchandise categories, the sourcing and purchasing of quality closeout merchandise directly from manufacturers and other vendors, typically at prices lower than those paid by traditional discount retailers, continues to represent an important competitive advantage for our Food and Consumables categories. We believe that our strong vendor relationships and our strong credit profile support this sourcing model. We expect that the unpredictability of the retail and manufacturing environments coupled with what we believe is our significant purchasing power position will continue to support our ability to source quality closeout merchandise at competitive prices in these categories.

## **Warehouse and Distribution**

The majority of our merchandise offerings are processed for retail sale and distributed to our stores from our five regional distribution centers located in Pennsylvania, Ohio, Alabama, Oklahoma, and California. We selected the locations of our distribution centers to help manage transportation costs and the distance from distribution centers to our stores. While certain of our merchandise vendors deliver directly to our stores, the large majority of our inventory is staged and delivered from our distribution centers to facilitate prompt and efficient distribution and transportation of merchandise to our stores and help maximize our sales and inventory turnover rate. During 2015, we announced our intention to open a new distribution center in California and relocate our existing California distribution operations to this facility. Construction began on the new facility in 2017 and we expect the transition to occur in the summer of 2019.

In addition to our regional distribution centers that handle store merchandise, we operate two warehouses within our Ohio distribution center. One warehouse distributes fixtures and supplies to our stores and our five regional distribution centers and the other warehouse serves as a fulfillment center for our e-commerce operations.

For additional information regarding our warehouses and distribution facilities and related initiatives, see the discussion under the caption “Warehouse and Distribution” in “Item 2. Properties” of 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<sup>®</sup> family of trademarks, have been registered with the U.S. Patent and Trademark Office. We use a variety of marketing vehicles to promote our brand operations, including television, internet, social media, e-mail, in-store point-of-purchase, and print media.

During 2017, we performed a comprehensive review of our brand identity and began to define ourselves as a community retailer. As a community retailer, we are focused on serving alongside Jennifer and investing in causes that are important to her. We serve the community on a national level through our Big Lots Foundation which focuses on healthcare, housing, hunger, and education. On a local level, we invest and support our associates throughout our geographic regions and serve alongside Jennifer with our point of sale campaigns, and the positive impacts those campaigns generate for our foundation partners. We believe our community retailing approach differentiates us from the competition and allows us to make a difference in the communities we serve.

In all markets served by our stores, we design and distribute printed advertising circulars, through a combination of newspaper insertions and mailings. In 2017, we distributed multi-page circulars representing 28 weeks of advertising coverage, which was a one week decrease from 2016. We create regional versions of these circulars to tailor our advertising message to market differences caused by product availability, climate, and customer preferences. Our customer database is an important marketing tool that allows us to communicate in a cost effective manner with our customers, including e-mail delivery of our circulars. In 2017, we rolled-out our new rewards program, BIG Rewards which replaced our former Buzz Club Rewards<sup>®</sup> program. The BIG Rewards program rewards our customers for making frequent and high ticket purchases and offers a special birthday surprise to our BIG Rewards members.

Another element of our marketing approach focuses on brand management by communicating our message directly to Jennifer through social and digital media outlets, including Facebook<sup>®</sup>, Instagram<sup>®</sup>, Twitter<sup>®</sup>, Pinterest<sup>®</sup>, and YouTube<sup>®</sup>. Our marketing program also employs a traditional television campaign, which combines strategic branding and promotional elements used in most of our other marketing media. Our highly-targeted media placement strategy uses strategically selected networks and programs aired by national cable providers as the foundation of our television advertising. In addition, we use in-store promotional materials, including in-store signage, to emphasize special bargains and significant values offered to our customers. Total advertising expense as a percentage of total net sales was 1.7%, 1.8%, and 1.8% in 2017, 2016, and 2015, respectively.

## **Seasonality**

We have historically experienced, and expect to continue to experience, seasonal fluctuations in our sales and profitability, with a larger percentage of our net sales and operating profit realized in our fourth fiscal quarter, which includes the Christmas holiday selling season. In addition, our quarterly net sales and operating profits can be affected by the timing of new store openings and store closings, advertising, and certain holidays. We historically receive a higher proportion of merchandise, carry higher inventory levels, and incur higher outbound shipping and payroll expenses as a percentage of sales in our third fiscal quarter in anticipation of increased sales activity during our fourth fiscal quarter. Performance during our fourth fiscal quarter typically reflects a leveraging effect which has a favorable impact on our operating results because net sales are higher and certain of our costs, such as rent and depreciation, are fixed and do not vary as sales levels escalate. If our sales performance is significantly better or worse during the Christmas holiday selling season, we would expect a more pronounced impact on our annual financial results than if our sales performance is significantly better or worse in a different season.

The following table sets forth the seasonality of net sales and operating profit (loss) for 2017, 2016, and 2015 by fiscal quarter:

	First	Second	Third	Fourth
<b>Fiscal Year 2017</b>				
Net sales as a percentage of full year	24.6%	23.2%	21.1%	31.1%
Operating profit as a percentage of full year	26.5	15.9	1.9	55.7
<b>Fiscal Year 2016</b>				
Net sales as a percentage of full year	25.2%	23.1%	21.3%	30.4%
Operating profit as a percentage of full year	25.2	15.6	0.8	58.4
<b>Fiscal Year 2015</b>				
Net sales as a percentage of full year	24.7%	23.3%	21.5%	30.5%
Operating profit (loss) as a percentage of full year	22.3	13.0	(0.9)	65.6

The seasonality of our net sales and related merchandise inventory requirements influences the availability of and demand for cash or access to credit. We historically have drawn upon our credit facility to assist in funding our working capital requirements, which typically peak near the end of our third fiscal quarter, and in funding our share repurchase programs. We historically have higher net sales, operating profits, and cash flow provided by operations in the fourth fiscal quarter, which generally allows us to substantially repay our seasonal borrowings and fund our share repurchase programs. In 2017, our total indebtedness (outstanding borrowings and letters of credit) peaked in November 2017 at approximately \$425 million under our \$700 million unsecured credit facility entered into in July 2011, and most recently amended in May 2015 (“2011 Credit Agreement”). The 2011 Credit Agreement expires in May 2020. At February 3, 2018, our total indebtedness under the 2011 Credit Agreement was \$204.8 million, which included \$199.8 million in borrowings and \$5.0 million in outstanding letters of credit. We expect that borrowings will vary throughout 2018 depending on various factors, including our seasonal need to acquire merchandise inventory prior to the peak selling season, the timing and amount of sales to our customers, the timing of and amount of capital expenditures, and the timing of share repurchase or dividend payment activity. For a discussion of our sources and uses of funds, see “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” and “Capital Resources and Liquidity” in the accompanying MD&A, in this Form 10-K.

#### 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”). Our filings with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. These filings are also available on the SEC’s website at <http://www.sec.gov> free of charge as soon as reasonably practicable after we have filed or furnished the above referenced reports.

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 Guidelines; charters of our Board of Directors’ Audit, Compensation, Nominating/Corporate Governance Committees, and our Public Policy and Environmental Affairs Committee; Code of Business Conduct and Ethics; Code of Ethics for Financial Officers; 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 satisfy the requirement under Item 5.05 of Form 8-K regarding disclosure of amendments to and waivers from, if any, our Code of Business Conduct and Ethics (to the extent applicable to our directors and executive officers (including our principal executive officer, principal financial officer and principal accounting officer)) and our Code of Ethics for Financial Professionals in the “Investor Relations” section of our website ([www.biglots.com](http://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 website are not incorporated into, or otherwise made a part of, this Form 10-K.



## Item 1A. Risk Factors

The statements in this section describe the material 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 2017 Annual Report to Shareholders contain 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. Such statements are commonly identified by using words such as "anticipate," "estimate," "expect," "objective," "goal," "project," "intend," "plan," "believe," "will," "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. Achievement of future results is subject to risks, uncertainties, and potentially inaccurate assumptions. If known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results or those anticipated, estimated, or projected results set forth in the forward-looking statements. 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.

The following cautionary discussion of material risks, uncertainties, and assumptions relevant to our businesses describes factors that, individually or in the aggregate, we believe 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. 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, as 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:

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

There is a risk that we will be unable to meet or exceed our operating performance targets and goals in the future if our strategies and initiatives are unsuccessful. Our ability to execute the business activities associated with our operating and strategic plans, particularly as we focus on becoming a community retailer, and effectively adapt our plans to the changing marketplace, could impact our ability to meet our operating performance targets. See the accompanying MD&A in this Form 10-K for additional information concerning our operating strategy.

***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 industry, which includes both traditional brick and mortar stores and online marketplaces, is highly competitive. As discussed in Item 1 of this Form 10-K, we compete for customers, products, employees, real estate, and other aspects of our business with a number of other companies. Some of our competitors have broader distribution (e.g., more stores and/or a more established online presence), and/or greater financial, marketing, and other resources than us. It is possible that increased competition, significant discounting, or improved performance by our competitors may reduce our market share, gross margin, and operating margin, and may materially adversely affect our business and results of operations.

***If we are unable to compete effectively in today's omnichannel retail marketplace, our business and results of operations may be materially adversely affected.***

With the saturation of mobile computing devices, competition from other retailers in the online retail marketplace is very high and growing. Certain of our competitors, and a number of pure online retailers, have established online operations against which we compete for customers and products. It is possible that the competition in the online retail space may reduce our market share, gross margin, and operating margin, and may materially adversely affect our business and results of operations in other ways. In 2016, we expanded our operations to include an e-commerce platform to enhance our omnichannel experience. Operating an e-commerce platform is a complex undertaking and there is no guarantee that the resources we have applied to this effort will result in increased revenues or improved operating performance. If our online retailing initiatives do not meet our customers' expectations, the initiatives may reduce our customers' desire to purchase goods from us both online and at our brick and mortar stores and may materially adversely affect our business and results of operations.

***Our inability to properly manage our inventory levels and offer merchandise that meets changing customer demands may materially impact our business and financial performance.***

We must maintain sufficient inventory levels to successfully operate our business. However, we also must seek to avoid accumulating excess inventory to maintain appropriate in-stock levels to customer demands. We obtain approximately one quarter of our merchandise directly from vendors outside of the U.S. These foreign vendors often require lengthy advance notice of our requirements 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 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, we attempt to maximize our operating profit 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 rely on manufacturers located in foreign countries for significant amounts of merchandise and 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 operating profit. During 2017, we purchased approximately 23% of our products directly from overseas vendors, including 19% from vendors located in China, and a significant amount of our domestically-purchased merchandise is manufactured abroad. Our ability to identify 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 U.S. Global sourcing and foreign trade involve numerous factors and uncertainties beyond our control including increased shipping costs, increased import duties, more restrictive quotas, loss of most favored nation trading status, currency and exchange rate fluctuations, work stoppages, transportation delays, economic uncertainties such as inflation, foreign government regulations, political unrest, natural disasters, war, terrorism, trade restrictions (including retaliation by the U.S. against foreign practices or by foreign countries against U.S. practices), political instability, the financial stability of vendors, merchandise quality issues, and tariffs. U.S. policy on trade restrictions is ever-changing and may result in new laws, regulations or treaties that increase the costs of importing goods and/or limit the scope of available foreign vendors. These and other issues affecting our international vendors could materially adversely affect our business and financial performance.

***Disruption to our distribution network, the capacity of our distribution centers, and our timely receipt of merchandise inventory could adversely affect our operating performance.***

We rely on our ability to replenish depleted merchandise inventory through deliveries to our distribution centers and from the distribution centers to our stores by various means of transportation, including shipments by sea, rail and truck carriers. A decrease in the capacity of carriers (e.g., trans-Pacific freight carrier bankruptcies) and/or labor strikes, disruptions or shortages in the transportation industry could negatively affect our distribution network, our timely receipt of merchandise and transportation costs. In addition, long-term disruptions to the U.S. and international transportation infrastructure from wars, political unrest, terrorism, natural disasters, governmental budget constraints and other significant events that lead to delays or interruptions of service could adversely affect our business. Also, a fire, earthquake, or other disaster at one of our distribution centers could disrupt our timely receipt, processing and shipment of merchandise to our stores which could adversely affect our business. Additionally, as we seek to expand our operation through the implementation of our online retail capabilities, we may face increased or unexpected demands on distribution center operations, as well as new demands on our distribution network.

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

In the normal course of business, we process and collect relevant data about our customers, employees and vendors. During 2016, our normal activities expanded to include conducting sales transactions through an online channel. The protection of our customer, employee, vendor and company data is critical to us. We have implemented procedures, processes and technologies designed to safeguard our customers' debit and credit card information and other private data, our employees' and vendors' private data, and our records and intellectual property. We also utilize third-party service providers in connection with certain technology related activities, including credit card processing, website hosting, data encryption and software support. We require these providers to take appropriate measures to secure such data and information and assess their ability to do so.

Despite our procedures, technologies and other information security measures, we cannot be certain that our information technology systems or the information technology systems of our third-party service providers are or will be able to prevent, contain or detect all cyberattacks, cyberterrorism, or security breaches. As evidenced by other retailers who have suffered serious security breaches, we may be vulnerable to data security breaches and data loss, including cyberattacks. A material breach of our security measures or our third-party service providers' security measures, the misuse of our customer, employee, vendor and company data or information or our failure to comply with applicable privacy and information security laws and regulations could result in the exposure of sensitive data or information, attract a substantial amount of negative media attention, damage our customer or employee relationships and our reputation and brand, distract the attention of management from their other responsibilities, subject us to government enforcement actions, private litigation, penalties and costly response measures, and result in lost sales and a reduction in the market value of our common shares. While we have insurance, in the event we experience a material data or information security breach, our insurance may not be sufficient to cover the impact to our business, or insurance proceeds may not be paid timely.

In addition, the regulatory environment surrounding data and information security and privacy is increasingly demanding, as new and revised requirements are frequently imposed across our business. Compliance with more demanding privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes.

***If we are unable to maintain or upgrade our computer systems 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 technology and computer systems for the efficient functioning of our business. We rely on certain hardware, telecommunications and software vendors to maintain and periodically upgrade many of these systems so that we can continue to support our business. Various components of our information technology and computer systems, including hardware, networks, and software, are licensed to us by third party vendors. We rely extensively on our information technology and computer systems to process transactions, summarize results, and manage our business. Our information technology and computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyberattacks or other security breaches, catastrophic events such as fires, floods, earthquakes, tornados, hurricanes, acts of war or terrorism, and usage errors by our employees or our contractors. In recent years, we have begun using hosted solutions for certain of our information technology and computer systems, which are more exposed to telecommunication failures.

If our information technology or computer systems are damaged or cease to function properly, we may have to make a significant investment to fix or replace them, and we may suffer loss of critical data and interruptions or delays in our operations as a result. Any material interruption experienced by our information technology or computer systems could negatively affect our business and results of operations. 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.

***Declines in general economic conditions, disposable income levels, and other conditions, such as unseasonable weather, could lead to reduced consumer demand for our merchandise, thereby materially affecting our revenues and gross margin.***

Our results of operations can be directly impacted by the health of the U.S. 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, tax reform, natural disasters or terrorist activities and other matters that influence consumer spending. Specifically, our Soft Home, Hard Home, Furniture and Seasonal merchandise categories may be threatened when disposable income levels are negatively impacted by economic conditions. Additionally, the net sales of cyclical product offerings in our Seasonal category may be threatened when we experience extended periods of unseasonable weather. Inclement weather can also negatively impact our Furniture category, as many customers transport the product home personally. In particular, the economic conditions and weather patterns of four states (California, Texas, Florida, and Ohio) are important as approximately 33% of our current stores operate and 34% of our 2017 net sales occurred in these states.

***Changes in federal or state legislation and regulations, including the effects of legislation and regulations on product safety and hazardous materials, could increase our cost of doing business and adversely affect our operating performance.***

We are exposed to the risk that new federal or state legislation, including new product safety and hazardous material laws and regulations, may negatively impact our operations and adversely affect our operating performance. Changes in product safety legislation or regulations may lead to product recalls and the disposal or write-off of merchandise, as well as fines or penalties and reputational damage. If our merchandise and food products do not meet applicable governmental safety standards or our customers' expectations regarding quality or safety, we could experience lost sales, increased costs and be exposed to legal and reputational risk.

In addition, if we discard or dispose of our merchandise, particularly that which is non-salable, in a fashion that is inconsistent with jurisdictional standards, we could expose ourselves to certain fines and litigation costs related to hazardous material regulations. Our inability to comply on a timely basis with regulatory requirements, execute product recalls in a timely manner, or consistently implement waste management standards, could result in fines or penalties which could have a material adverse effect on our financial results. In addition, negative customer perceptions regarding the safety of the products we sell could cause us to lose market share to our competitors. If this occurs, it may be difficult for us to regain lost sales.

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

From time to time, we are involved in lawsuits and regulatory actions, including various collective, class action or shareholder derivative lawsuits that are brought against us for alleged violations of the Fair Labor Standards Act, state wage and hour laws, sales tax and consumer protection laws, False Claims Act, federal securities laws and environmental and hazardous waste regulations. 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 attention and resources to defend ourselves. For a description of certain current legal proceedings, see note 10 to the accompanying consolidated financial statements.

***Our current insurance program may expose us to unexpected costs and negatively affect our financial performance.***

Our insurance coverage is subject to deductibles, self-insured retentions, limits of liability and similar provisions that we believe are prudent based on our overall operations. We may incur certain types of losses that we cannot insure or which we believe are not economically reasonable to insure, such as losses due to acts of war, employee and certain other crime, and some natural disasters. If we incur these losses and they are material, our business could suffer. Certain material events may result in sizable losses for the insurance industry and adversely impact the availability of adequate insurance coverage or result in excessive premium increases. To offset negative cost trends in the insurance market, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to these market changes. In addition, we self-insure a significant portion of expected losses under our workers' compensation, general liability, including automobile, and group health insurance programs. Unanticipated changes in any applicable actuarial assumptions and management estimates underlying our recorded liabilities for these self-insured losses, including potential increases in medical and indemnity costs, could result in significantly different expenses than expected under these programs, which could have a material adverse effect on our financial condition and results of operations. Although we continue to maintain property insurance for catastrophic events, we are self-insured for losses up to the amount of our deductibles. If we experience a greater number of self-insured losses than we anticipate, our financial performance could be adversely affected.

***If we are unable to attract, train, and retain highly qualified associates while also controlling our labor costs, our financial performance may be negatively affected.***

Our customers expect a positive shopping experience, which is driven by a high level of customer service from our associates and a quality presentation of our merchandise. To grow our operations and meet the needs and expectations of our customers, we must attract, train, and retain a large number of highly qualified associates, while at the same time control labor costs. We compete with other retail businesses for many of our associates in hourly and part-time positions. These positions have historically had high turnover rates, which can lead to increased training and retention costs. In addition, our ability to control labor costs is subject to numerous external factors, including prevailing wage rates, the impact of legislation or regulations governing labor relations or benefits, and health insurance costs.

***The loss of key personnel may have a material 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 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 depend on our ability to recruit, train, and retain our senior executives and other qualified personnel.

***If we are unable to retain existing and secure suitable new 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, as noted below in "Item 2. Properties" and in MD&A in this Form 10-K. Our strategy to improve our financial performance includes sales growth while managing the occupancy cost of each of our stores. The primary component of our sales growth strategy revolves around increasing our comparable store sales, which will require renewing many leases each year. Additional components of our sales growth strategy are to relocate certain stores to a new location within an existing market and to open new store locations, either as an expansion in an existing market or as an entrance into a new market. If the commercial real estate market does not allow us to negotiate favorable lease renewals and new store leases, our financial position, results of operations, and liquidity may be negatively affected.

***Our inability to comply with the terms of the 2011 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 2011 Credit Agreement, and we utilize this ability at various times depending on operating or other cash flow requirements. The 2011 Credit Agreement contains financial and other covenants, including, but not limited to, limitations on indebtedness, liens, and investments, as well as the maintenance of a leverage ratio and a fixed charge coverage ratio. Additionally, we are subject cross-default provisions within the synthetic lease agreement (the "Synthetic Lease") that we entered into associated with our new distribution center in California. A violation of any 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. Our failure to comply with these covenants may have a material adverse effect on our capital resources, financial condition, results of operations, and liquidity.

***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 impairment and recognize an impairment loss or valuation charge, if necessary. In performing these assessments, we use our historical financial performance to determine whether we have potential impairments or valuation concerns and as evidence to support our assumptions about future financial performance. A significant decline in our financial performance could negatively affect the results of our assessments of the recoverability of our property and equipment and our deferred tax assets and trigger the impairment of these 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 discussion under the caption “Critical Accounting Policies and Estimates” in the accompanying MD&A in this Form 10-K for additional information regarding our accounting policies for long-lived assets and income taxes).

***Changes in accounting guidance could significantly affect our results of operations and the presentation of those results.***

Changes in accounting standards, including new interpretations and applications of accounting standards, may have adverse effects on our financial condition, results of operations, and liquidity. The Financial Accounting Standards Board (“FASB”) has issued and/or adopted new guidance that proposes numerous significant changes to current accounting standards. This new guidance could significantly change the presentation of financial information and our results of operations. Additionally, the new guidance may require us to make systems and other changes that could increase our operating costs. Specifically, implementing future accounting guidance related to leases is requiring us to make significant changes to our lease management system systems.

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

- Changes in governmental laws and regulations, including matters related to taxation;
- A downgrade in our credit rating could negatively affect our ability to access capital or could increase our borrowing costs;
- 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 our sales;
- Fluctuating commodity prices, including but not limited to diesel fuel and other fuels used by utilities to generate power, may affect our gross profit and operating profit margins;
- Infringement of our intellectual property, including the Big Lots trademarks, could dilute their value; 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 U.S., predominantly in strip shopping centers, and have an average store size of approximately 31,500 square feet, of which an average of 22,200 is selling square feet. For additional information about the properties in our retail operations, see the discussion under the caption “Real Estate” in “Item 1. Business” and under the caption “Real Estate” in MD&A in this Form 10-K.

The average cost to open a new store in a leased facility during 2017 was approximately \$1.4 million, including the cost of inventory. All of our stores are leased, except for the 53 stores we own in the following states:

<b>State</b>	<b>Stores Owned</b>
Arizona	1
California	38
Colorado	3
Florida	3
Louisiana	1
Michigan	1
New Mexico	2
Ohio	1
Texas	3
<b>Total</b>	<b>53</b>

Additionally, in 2017, we closed one owned site, which we are not operating and is available for sale. Since this owned site is no longer operating as an active store, it has been excluded from our store counts at February 3, 2018.

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 ten years with multiple five-year renewal options. Forty-eight store leases have sales termination clauses that allow us to exit the location at our option if we do not achieve certain sales volume results.

The following table summarizes the number of store lease expirations in each of the next five fiscal years and the total thereafter. 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 table includes leases for stores with more than one lease and leases for stores not yet open and excludes 7 month-to-month leases and 53 owned locations.

<b>Fiscal Year:</b>	<b>Expiring Leases</b>	<b>Leases Without Options</b>
2018	242	49
2019	237	42
2020	243	36
2021	262	53
2022	199	15
Thereafter	186	14

## Warehouse and Distribution

At February 3, 2018, we owned approximately 9.0 million square feet of distribution center and warehouse space. We own and operate five regional distribution centers strategically located across the United States. The regional distribution centers utilize warehouse management technology, which we believe enables highly accurate and efficient processing of merchandise from vendors to our retail stores. The combined output of our regional distribution centers was approximately 2.4 million merchandise cartons per week in 2017. Certain vendors deliver merchandise directly to our stores when it supports our operational goal to deliver merchandise from our vendors to the sales floor in the most efficient manner. We operate our e-commerce fulfillment center out of our Columbus warehouse.

Distribution centers and warehouse space, and the corresponding square footage of the facilities, by location at February 3, 2018, were as follows:

Location	Year Opened	Total Square Footage	Number of Stores Served
<i>(Square footage in thousands)</i>			
Rancho Cucamonga, CA	1984	1,423	253
Columbus, OH	1989	3,559	321
Montgomery, AL	1996	1,411	304
Tremont, PA	2000	1,295	331
Durant, OK	2004	1,297	207
<b>Total</b>		<b>8,985</b>	<b>1,416</b>

## Corporate Office

We own the facility in Columbus, Ohio that serves as our headquarters for corporate associates. During 2016, we entered into an agreement to lease a new facility for our corporate headquarters, which is also in Columbus, Ohio. We continue to anticipate moving our corporate operations to this new facility in the first half of 2018.

## Item 3. Legal Proceedings

Item 103 of SEC Regulation S-K requires that we disclose actual or known contemplated legal proceedings to which a governmental authority and we are each a party and that arise under laws dealing with the discharge of materials into the environment or the protection of the environment, if the proceeding reasonably involves potential monetary sanctions of \$100,000 or more. Accordingly, please refer to the discussion in note 10 to the accompanying consolidated financial statements regarding the settlement we entered into with the various counties in the State of California.

Aside from these matters, no response is required under Item 103 of Regulation S-K. For a discussion of certain litigated matters, also see note 10 to the accompanying consolidated financial statements

## Item 4. Mine Safety Disclosures

None.

## Supplemental Item. Executive Officers of the Registrant

Our executive officers at April 3, 2018 were as follows:

Name	Age	Offices Held	Officer Since
David J. Campisi	62	Chief Executive Officer and President	2013
Lisa M. Bachmann	56	Executive Vice President, Chief Merchandising and Operating Officer	2002
Timothy A. Johnson	50	Executive Vice President, Chief Administrative Officer and Chief Financial Officer	2004
Michael A. Schlonsky	51	Executive Vice President, Human Resources and Store Operations	2000
Stephen M. Haffer	54	Senior Vice President, Chief Customer Officer	2018
Ronald A. Robins, Jr.	54	Senior Vice President, General Counsel and Corporate Secretary	2015



*David J. Campisi* is our Chief Executive Officer and President. On December 4, 2017, we announced that Mr. Campisi was on a temporary medical leave of absence. Before joining Big Lots in May 2013, Mr. Campisi served as the Chairman and Chief Executive Officer of Respect Your Universe, Inc., an activewear retailer. Mr. Campisi previously served as the Chairman, President and Chief Executive Officer of The Sports Authority, Inc., a sporting goods retailer. Prior to that, Mr. Campisi served as Executive Vice President and General Merchandise Manager, Women's Apparel, Accessories, Intimates and Cosmetics of Kohl's Corporation, a department store retailer. Additionally, Mr. Campisi served as Senior Vice President and General Merchandise Manager, Apparel, Home, and Home Electronics of Fred Meyer's Corporation, a department store retailer.

*Lisa M. Bachmann* is responsible for merchandising and global sourcing, information technology, merchandise presentation, and merchandise planning and allocation. On December 4, 2017, we announced that in connection with Mr. Campisi's temporary medical leave of absence, the Board assigned Mr. Campisi's executive responsibilities to Ms. Bachmann and Mr. Johnson. Ms. Bachmann was promoted to Executive Vice President, Chief Merchandising and Operating Officer in August 2015, at which time she assumed responsibility for merchandising and global sourcing. Prior to that, Ms. Bachmann was promoted to Executive Vice President, Chief Operating Officer in August 2012 and Executive Vice President, Supply Chain Management and Chief Information Officer in March 2010. Ms. Bachmann joined us as Senior Vice President, Merchandise Planning, Allocation and Presentation in March 2002.

*Timothy A. Johnson* is responsible for financial reporting and controls, financial planning and analysis, treasury, risk management, tax, internal audit, investor relations, real estate, asset protection and distribution and transportation services. On December 4, 2017, we announced that in connection with Mr. Campisi's temporary medical leave of absence, the Board assigned Mr. Campisi's executive responsibilities to Ms. Bachmann and Mr. Johnson. Mr. Johnson was promoted to Executive Vice President, Chief Administrative Officer and Chief Financial Officer in August 2015, at which time he assumed responsibility for distribution and transportation services. Prior to that Mr. Johnson was promoted to Executive Vice President, Chief Financial Officer in March 2014. Mr. Johnson assumed responsibility for real estate in June 2013 and asset protection in November 2013. Mr. Johnson was promoted to Senior Vice President, Chief Financial Officer in August 2012, at which time he assumed responsibility for treasury and risk management. He was promoted to Senior Vice President of Finance in July 2011. He joined us in August 2000 as Director of Strategic Planning.

*Michael A. Schlonsky* is responsible for store operations, talent management and oversight of human resources. He was promoted to Executive Vice President in August 2015, at which time he assumed responsibility for store operations. He was promoted to Senior Vice President, Human Resources in August 2012 and promoted to Vice President, Associate Relations and Benefits in 2010. Prior to that, Mr. Schlonsky was promoted to Vice President, Associate Relations and Risk Management in 2005. Mr. Schlonsky joined us in 1993 as Staff Counsel and was promoted to Director, Risk Management in 1998, and to Vice President, Risk Management and Administrative Services in 2000.

*Stephen M. Haffer* is responsible for customer engagement, and messaging touchpoints, including marketing, advertising, brand development and e-commerce. Mr. Haffer joined us in 2018 as Senior Vice President, Chief Customer Officer. Prior to joining us, Mr. Haffer was an executive at American Signature, Inc., the parent company for Value City Furniture and American Signature Home stores, where he served in a number of roles over a 25-year career spanning marketing, e-commerce, information technology and business development, leading up to his appointment as Chief Innovation Officer in 2016.

*Ronald A. Robins, Jr.* is responsible for legal affairs and compliance. Mr. Robins joined us in 2015 as Senior Vice President, General Counsel and Corporate Secretary. Prior to joining us, Mr. Robins was a partner at Vorys, Sater, Seymour and Pease LLP and also previously served as General Counsel, Chief Compliance Officer, and Secretary of Abercrombie & Fitch Co., an apparel retailer.

## Part II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common shares are listed on the New York Stock Exchange (“NYSE”) under the symbol “BIG.” The following table reflects the high and low sales prices for our common shares as reported on the NYSE composite tape for the fiscal periods indicated:

	2017		2016	
	High	Low	High	Low
First Quarter	\$ 55.10	\$ 46.84	\$ 47.95	\$ 35.86
Second Quarter	51.77	45.10	53.95	41.61
Third Quarter	54.18	46.95	56.30	42.40
Fourth Quarter	\$ 64.42	\$ 50.67	\$ 56.54	\$ 42.58

In June 2014, we announced that our Board of Directors commenced a cash dividend program. Since the commencement of the program, we have declared and paid fifteen consecutive quarterly cash dividends. The following reflects our quarterly dividend payments for 2016 and 2017:

	2017	2016
First Quarter	\$ 0.25	\$ 0.21
Second Quarter	0.25	0.21
Third Quarter	0.25	0.21
Fourth Quarter	0.25	0.21
Total	\$ 1.00	\$ 0.84

In the first quarter of 2018, our Board of Directors declared a dividend payable on April 6, 2018 to shareholders of record on March 23, 2018 and increased the amount of the dividend from \$0.25 to \$0.30 per share. Although it is the present intention of our Board of Directors to continue to pay a quarterly cash dividend in the future, the determination to pay future dividends will be at the discretion of our Board of Directors and will depend on our financial condition, results of operations, capital requirements, compliance with applicable laws and agreements and any other factors deemed relevant by our Board.

After making investments in the business and paying declared dividends, we have utilized the excess of our cash provided by operations for share repurchase programs. Any future decisions on the uses of excess cash will be determined by our Board of Directors taking into account business conditions then existing, including our financial condition, results of operations, capital requirements, compliance with applicable laws and agreements, opportunities for reinvesting cash, and other factors deemed relevant by our Board of Directors.

The following table sets forth information regarding our repurchase of common shares during the fourth fiscal quarter of 2017:

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

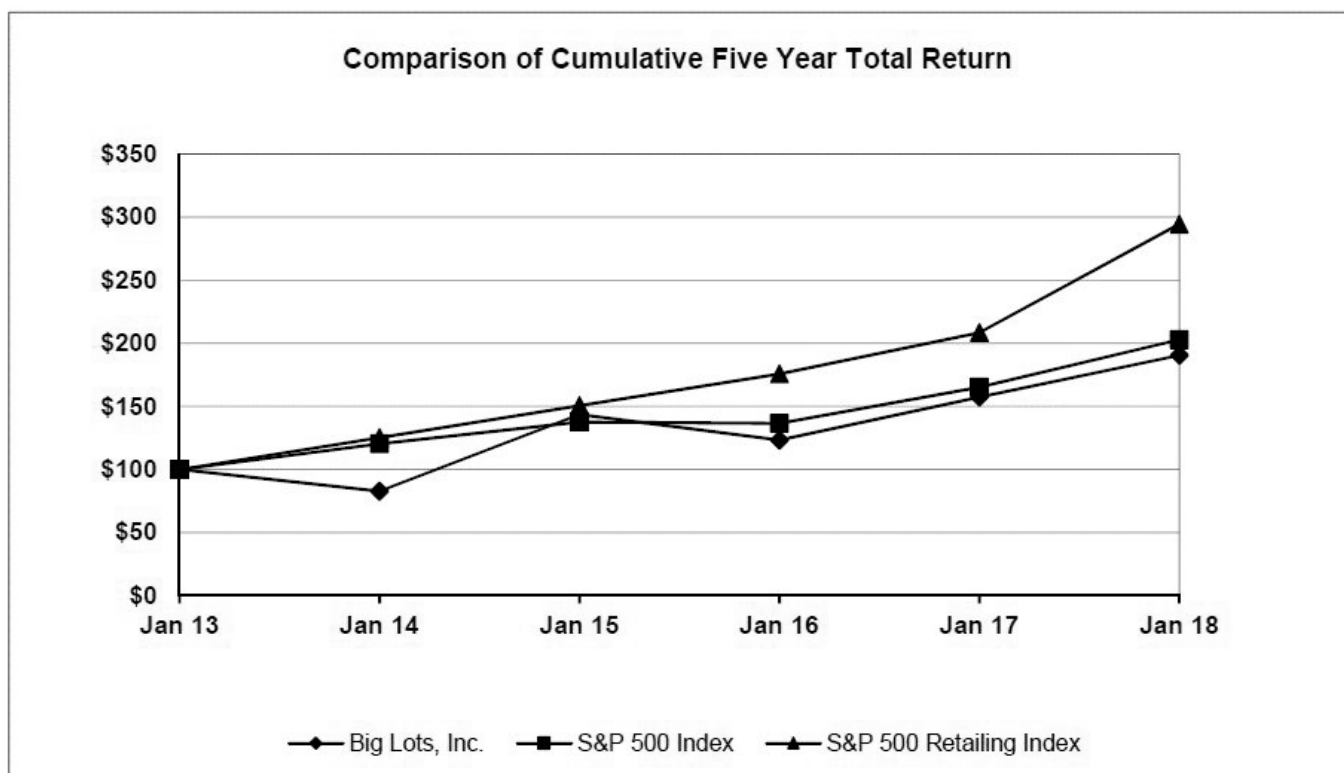
Period	(a) Total Number of Shares Purchased <sup>(1)</sup>	(b) Average Price Paid per Share <sup>(1)</sup>	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 29, 2017 - November 25, 2017	—	\$ 53.88	—	\$ —
November 26, 2017 - December 23, 2017	—	54.10	—	—
December 24, 2017 - February 3, 2018	—	57.37	—	—
Total	—	\$ 54.78	—	\$ —

- (1) In November 2017, December 2017, and January 2018, in connection with the vesting of certain outstanding restricted stock awards and restricted stock units, we acquired 48, 308, and 97 of our common shares, respectively, which were withheld to satisfy minimum statutory income tax withholdings.

On March 7, 2018, our Board of Directors authorized a program for the repurchase of up to \$100.0 million of our common shares (“2018 Repurchase Program”). The 2018 Repurchase Program has no scheduled termination date.

At the close of trading on the NYSE on March 30, 2018, there were approximately 630 registered holders of record of our common shares.

The following graph and table compares, for the five fiscal years ended February 3, 2018, the cumulative total shareholder return for our common shares, the S&P 500 Index, and the S&P 500 Retailing Index. Measurement points are the last trading day of each of our fiscal years ended February 1, 2014, January 31, 2015, January 30, 2016, January 28, 2017 and February 3, 2018. The graph and table assume that \$100 was invested on February 2, 2013, in each of our common shares, the S&P 500 Index, and the S&P 500 Retailing Index and reinvestment of any dividends. The stock price performance on the following graph and table is not necessarily indicative of future stock price performance.



Indexed Returns						
Years Ended						
Base Period						
Company / Index	January 2013	January 2014	January 2015	January 2016	January 2017	January 2018
<b>Big Lots, Inc.</b>	\$ 100.00	\$ 82.84	\$ 143.62	\$ 123.38	\$ 157.47	\$ 190.59
<b>S&amp;P 500 Index</b>	100.00	120.46	137.60	136.68	165.20	202.93
<b>S&amp;P 500 Retailing Index</b>	\$ 100.00	\$ 125.35	\$ 150.54	\$ 175.82	\$ 208.43	\$ 294.52

## Item 6. Selected Financial Data

The following statements of operations and balance sheet data have been derived from our consolidated financial statements and should be read in conjunction with MD&A and the consolidated financial statements and related notes included herein.

<i>(In thousands, except per share amounts and store counts)</i>	Fiscal Year				
	2017 <sup>(b)</sup>	2016 <sup>(a)</sup>	2015 <sup>(a)</sup>	2014 <sup>(a)</sup>	2013 <sup>(a)</sup>
Net sales	\$ 5,270,980	\$ 5,200,439	\$ 5,190,582	\$ 5,177,078	\$ 5,124,755
Cost of sales (exclusive of depreciation expense shown separately below)	3,128,538	3,101,020	3,123,442	3,133,124	3,117,386
Gross margin	2,142,442	2,099,419	2,067,140	2,043,954	2,007,369
Selling and administrative expenses	1,723,996	1,730,956	1,708,499	1,699,764	1,664,031
Depreciation expense	117,093	120,460	122,854	119,702	113,228
Operating profit	301,353	248,003	235,787	224,488	230,110
Interest expense	(6,711)	(5,091)	(3,683)	(2,588)	(3,293)
Other income (expense)	712	1,387	(5,254)	—	(12)
Income from continuing operations before income taxes	295,354	244,299	226,850	221,900	226,805
Income tax expense	105,522	91,471	83,977	85,239	85,515
Income from continuing operations	189,832	152,828	142,873	136,661	141,290
Loss from discontinued operations, net of tax	—	—	—	(22,385)	(15,995)
Net income	\$ 189,832	\$ 152,828	\$ 142,873	\$ 114,276	\$ 125,295
Earnings per common share - basic:					
Continuing operations	\$ 4.43	\$ 3.37	\$ 2.83	\$ 2.49	\$ 2.46
Discontinued operations	—	—	—	(0.41)	(0.28)
	\$ 4.43	\$ 3.37	\$ 2.83	\$ 2.08	\$ 2.18
Earnings per common share - diluted:					
Continuing operations	\$ 4.38	\$ 3.32	\$ 2.80	\$ 2.46	\$ 2.44
Discontinued operations	—	—	—	(0.40)	(0.28)
	\$ 4.38	\$ 3.32	\$ 2.80	\$ 2.06	\$ 2.16
<b>Weighted-average common shares outstanding:</b>					
Basic	42,818	45,316	50,517	54,935	57,415
Diluted	43,300	45,974	50,964	55,552	57,958
<b>Cash dividends declared per common share</b>	\$ 1.00	\$ 0.84	\$ 0.76	\$ 0.51	\$ —
<b>Balance sheet data:</b>					
Total assets	\$ 1,651,726	\$ 1,607,707	\$ 1,640,370	\$ 1,635,891	\$ 1,739,599
Working capital	432,365	315,784	315,984	411,446	483,833
Cash and cash equivalents	51,176	51,164	54,144	52,261	68,629
Long-term obligations under bank credit facility	199,800	106,400	62,300	62,100	77,000
Shareholders' equity	\$ 669,587	\$ 650,630	\$ 720,470	\$ 789,550	\$ 901,427
<b>Cash flow data:</b>					
Cash provided by operating activities	\$ 250,368	\$ 311,925	\$ 342,352	\$ 318,562	\$ 198,334
Cash used in investing activities	\$ (156,508)	\$ (84,701)	\$ (113,193)	\$ (90,749)	\$ (97,495)
<b>Store data:</b>					
Total gross square footage	44,638	44,570	44,914	45,134	45,708
Total selling square footage	31,399	31,519	31,775	32,006	32,732
Stores open at end of the fiscal year	1,416	1,432	1,449	1,460	1,493

(a) The period presented is comprised of 52 weeks.

(b) The period presented is comprised of 53 weeks.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Overview

The discussion and analysis presented below should be read in conjunction with the accompanying consolidated financial statements and related notes. Please refer to “Item 1A. Risk Factors” of this Form 10-K for a discussion of forward-looking statements and certain risk factors that may have a material adverse effect on our business, financial condition, results of operations, and/or liquidity.

Our fiscal year ends on the Saturday nearest to January 31, which results in some fiscal years with 52 weeks and some with 53 weeks. Fiscal year 2017 was comprised of 53 weeks, while fiscal years 2016 and 2015 were each comprised of 52 weeks. Fiscal year 2018 will be comprised of 52 weeks.

### Operating Results Summary

The following are the results from 2017 that we believe are key indicators of our operating performance when compared to 2016.

- Net sales increased \$70.5 million, or 1.4%.
- Comparable store sales for stores open at least fifteen months, including e-commerce, increased \$18.9 million, or 0.4%.
- Gross margin dollars increased \$43.0 million with a 20 basis point increase in gross margin rate to 40.6% of sales.
- Selling and administrative expenses decreased \$7.0 million. As a percentage of net sales, selling and administrative expenses decreased 60 basis points to 32.7% of net sales.
- Operating profit rate increased 90 basis points to 5.7%.
- Diluted earnings per share increased 31.9% to \$4.38 per share, compared to \$3.32 per share in 2016.
- Our return on invested capital increased to 22.9% from 19.0%.
- Inventory of \$872.8 million represented a \$14.1 million increase, or 1.6%, from 2016.
- We acquired approximately 3.1 million of our outstanding common shares for \$150.0 million, under our 2017 Repurchase Program (as defined below in “Capital Resources and Liquidity”), at a weighted average price of \$48.04 per share.
- We declared and paid four quarterly cash dividends in the amount of \$0.25 per common share, for a total paid amount of approximately \$44.7 million.

The following table compares components of our consolidated statements of operations as a percentage of net sales:

	2017	2016	2015
Net sales	100.0%	100.0%	100.0%
Cost of sales (exclusive of depreciation expense shown separately below)	59.4	59.6	60.2
Gross margin	40.6	40.4	39.8
Selling and administrative expenses	32.7	33.3	32.9
Depreciation expense	2.2	2.3	2.4
Operating profit	5.7	4.8	4.5
Interest expense	(0.1)	(0.1)	(0.1)
Other income (expense)	0.0	0.0	(0.1)
Income before income taxes	5.6	4.7	4.4
Income tax expense	2.0	1.8	1.6
Net income	3.6%	2.9%	2.8%

See the discussion below under the captions “2017 Compared To 2016” and “2016 Compared To 2015” for additional details regarding the specific components of our operating results.

In 2017, our selling and administrative expenses include recoveries of \$3.0 million from our insurance carriers related to a legal matter. Additionally, our income tax expense reflects a \$4.5 million charge for the impact of the Tax Cuts and Jobs Act of 2017 related to our net deferred tax position and a \$3.5 million benefit for the reduction in our federal tax rate.

In 2016, our selling and administrative expenses include \$27.8 million of costs associated with the termination of our pension plans, which was completed near the end of fiscal 2016, partially offset by a \$3.8 million gain on the sale of a company-owned property in California.

In 2015, our selling and administrative expenses include both a \$4.5 million charge associated with the settlement of a legal matter and \$12.9 million of costs associated with the termination of our pension plans, which commenced in 2015 and was completed near the end of fiscal 2016.

## **Operating Strategy**

In 2013, we introduced our Edit to Amplify operating strategy (“Edit to Amplify”). Edit to Amplify applies to all aspects of our business, but particularly focuses on merchandising, marketing, and our customers’ shopping experience, which we believe represent the key drivers of our net sales. During 2016, we began to focus our Edit to Amplify strategy on what we call “ownable” or “winnable” merchandise categories. In 2017, we continued to focus on our core customer, Jennifer, who we believe is cause minded, home focused, and deal driven. Our goal is to offer Jennifer affordable solutions in every season and category. Through our “ownable” and “winnable” merchandise categories, we are committed to offering product assortments that score highly in quality, brand, fashion, and value (“QBFV”) at a price tag Jennifer will love and exceeding Jennifer’s expectations by employing a customer-first mentality, including friendly experiences, and delivering a product assortment that meets her everyday needs and delivers exciting surprises intended to drive discretionary purchases.

In 2018, we expect to continue to enhance our operating strategy, and anticipate:

- Earnings per diluted share to be \$4.75 to \$4.95.
- Comparable store sales increase in the low single digits.
- Opening 30 new stores and closing 40 stores.
- Cash flow (operating activities less capital expenditures) of approximately \$120 to \$130 million.
- Cash returned to shareholders of approximately \$150 million, through our quarterly dividend program and the 2018 Repurchase Program.

Additional discussion and analysis of our financial performance and the assumptions and expectations upon which we are basing our guidance for our future results is set forth below under the caption “2017 Compared To 2016.”

## ***Merchandising***

We intend to achieve our goal of exceeding Jennifer’s expectations by offering quality product assortments and friendly solutions that align with our understanding of her hidden needs. We are committed to providing Jennifer products with high levels of QBFV at a reliable value. Our Edit to Amplify strategy evaluates our product mix using the separate components of “Edit” and “Amplify.” The “Edit” component focuses on downsizing, or potentially eliminating, those departments within our merchandise categories and product offerings that we believe Jennifer does not prioritize or where we believe we do not maintain a competitive advantage. The “Amplify” component enhances the assortment of those merchandise categories and product offerings that we believe are important to Jennifer’s shopping experience, and in which we believe we have a competitive advantage. We continue to enhance the “Amplify” component of our strategy and have narrowed our focus to internally define our merchandise categories as “ownable” or “winnable.” An “ownable” merchandise category is one where we believe Jennifer views us as a destination to shop for a tasteful assortment of products and affordable solutions. We believe that our value proposition and in-store execution differentiates us from the competition in our “ownable” categories. A “winnable” merchandise category is one where we believe the reliable value of our focused, trend-right assortment and/or closeout merchandise differentiates us from the competition when Jennifer shops for these key product offerings. We believe that our Furniture, Seasonal, Soft Home, Food, and Consumables merchandise categories are “ownable” or “winnable” and align our business with how our core customer shops our stores, while our Hard Home and Electronics, Toys, & Accessories merchandise categories provide convenient adjacencies to our “ownable” or “winnable” categories.

We define our Furniture and Seasonal categories as “ownable”:

- Our Furniture category primarily focuses on our core customer’s home furnishing needs, such as upholstery, mattresses, case goods, and ready-to-assemble. In Furniture, we believe our competitive advantage is attributable to our sourcing relationships, our in-store availability, and everyday value offerings. A significant majority of our offerings in this category consists of replenishable products sourced either from recognized brand-name manufacturers or sold under our own brands. Our long-standing relationships with certain brand-name manufacturers, most notably in our mattresses and upholstery departments, allow us to work directly with them to create product offerings specifically for our stores, which enables us to provide a high-quality product at a competitive price. Additionally, we believe our “buy today, take home today” practice of carrying in-stock inventory of our core furniture offerings, which allows Jennifer to take home her purchase at the end of her shopping experience, positively differentiates us from our competition. We encourage Jennifer to shop in store by allowing her to touch and feel the quality and comfort of our products. We believe that offering a focused assortment, which is displayed in furniture vignettes, provides Jennifer a solution for decorating her home when combined with our home decor offerings.
- Our Seasonal category is “ownable” in our patio furniture, gazebos, and Christmas trim departments. We believe we have a competitive advantage in this category by creating trend-right products with strong value proposition in our own brands. We believe our in-store shopping experience differentiates us from the competition. We have a large selection of samples assembled and displayed throughout the seasonal section of our store and have packaged the box stock so that it is very easy for Jennifer to purchase and take home. Much of this merchandise is sourced on an import basis, which allows us to maintain our competitive pricing. Additionally, our Seasonal category offers a mix of departments / products that complement her outdoor experience and holiday decorating desires. We continue to work with our vendors to expand our assortment to respond to Jennifer’s evolving wants and needs.

We define our Soft Home, Food, and Consumables categories as “winnable”:

- Our Soft Home category is considered a “winnable” category, but has the potential to be an “ownable” category in areas such as bedding, bath, home fashion, and accents. Over the past few years, we have enhanced our assortment in Soft Home by allocating more selling space to the category to support a wider range of replenishable, fashion-based products. Our competitive advantage in Soft Home is centered around (1) a trend-right, focused assortment with improved quality and perceived value; and (2) our ability to outfit Jennifer’s home with the décor that compliments an in-store furniture purchase. We have worked to develop a “solutions” approach when combining our Soft Home offerings with our Furniture and Seasonal categories through our cross-merchandising efforts on color palette coordination. This helps Jennifer envision how the product can work in her home and enhances our brand image.
- Our Food and Consumables categories focus primarily on catering to Jennifer’s daily essentials, or “need, use, buy most” items, by providing reliable value and consistency of product offerings. We believe we possess a competitive advantage in the Food and Consumables categories based on our sourcing capabilities for closeout merchandise. Manufacturers and vendors have closeout merchandise for a variety of different reasons, including other retailers canceling orders or going out of business, production overruns, or marketing or packaging changes. We believe our vendor relationships, along with our size and financial strength, afford us these opportunities. To supplement our closeout business, we have focused on improving and expanding our “never out” product assortment to provide more consistency in those areas where Jennifer desires consistently available product offerings. We have added top brands to our “never out” programs in both Food and Consumables and believe our assortment and value proposition will continue to differentiate us in this highly competitive industry.

We consider our Hard Home and Electronics, Toys, & Accessories as convenience categories:

- Our Hard Home and Electronics, Toys, & Accessories categories serve as convenient adjacencies to our “ownable” and “winnable” categories. Over the past few years, we have intentionally narrowed our assortments in these categories and allocated linear footage to the “ownable” and “winnable” categories. Our product assortments in these categories focus on value and savings in areas such as food prep, table top, home maintenance, small appliances, and electronics.

Our merchandising management team is aligned with our merchandise categories. The primary goal of this team is to increase our total company comparable store sales (“comp” or “comps”). We focus our performance review of members within merchandise management on comps by merchandise category, as we believe it is the key metric that will drive our long-term net sales. By focusing on growing our “ownable” and “winnable” merchandise categories, and managing contraction in certain departments within those categories, we believe our merchandise management team can effectively address the changing shopping behaviors of our customers and implement more tailored solutions within each merchandise category, which we believe will lead to continued growth in our comps in the future.

### ***Marketing***

The top priority of our marketing activities is to increase our comps. In 2016, we began a comprehensive review of our brand identity to gain further insights into Jennifer’s perception of our brand and how best to improve the overall effectiveness of our marketing efforts. After extensive research, we identified three key insights about Jennifer: she is (1) deal-driven, (2) home-focused and (3) cause-minded. We determined that we needed to identify Jennifer’s hidden needs and align them with our greatest strengths. We learned Jennifer feels most special when serving others and investing in causes bigger than herself. We believe that this aligns with our involvement in the community and mission at the Big Lots Foundation to improve and enrich the lives of families and children. As a result, we began to develop a new brand identity focused on the vision of community orientation and serving as Jennifer’s second family. Our mission is simple, we exist to serve everyone like family. We strive to be known for our three core traits: (1) friendly, (2) reliable and trustworthy value, and (3) community driven, and intend to embed these traits in everything that we do. We want to be known as a new kind of community retailer that serves the community and offers affordable solutions for every season and category. In 2018, we plan to launch a new campaign to share our new brand identity with Jennifer and introduce our new brand line “Serve Big, Save Lots.”

As we implement our new brand identity, we have shifted our marketing efforts to focus on strengthening our new brand and connecting with our core customer, Jennifer. We continue to increase our use of social and digital media outlets including conducting entire campaigns through these outlets (specifically on Facebook<sup>®</sup>, Instagram<sup>®</sup>, Pinterest<sup>®</sup>, Twitter<sup>®</sup>, and YouTube<sup>®</sup>) to drive increased brand awareness with our core customer and to attempt to speak to new potential customers. These outlets provide us with a channel to deliver our brand message directly to Jennifer, while also providing her with the opportunity to share direct feedback with us, which can enhance our understanding of what is most important to her and improve the shopping experience in our stores.

Given our customer’s proficiency with mobile devices and digital media, we focus on communicating with her through those channels. In the past we have used our Buzz Club Rewards<sup>®</sup> Program to communicate our promotions and deals. In 2017, we launched a new loyalty program, BIG Rewards, to more effectively incentivize our loyal customers. Our new program rewards Jennifer with a coupon after every third purchase, offers her a birthday surprise, and special rewards after large-ticket furniture purchases. We believe our BIG Rewards Program will help increase engagement with Jennifer and clearly communicate our offerings.

In addition to electronic, social and digital media, our marketing communication efforts involve a mix of television advertising, printed ad circulars, and in-store signage. The primary goals of our television advertising are to promote our brand and, from time to time, promote products or special discounts in our stores. We have begun using more local television advertising and digital streaming media in concentrated markets, which allows us to connect deeper and more frequently with Jennifer. Our printed advertising circulars and our in-store signage initiatives focus on promoting our value proposition on our unique merchandise offerings.

### ***Shopping Experience***

Starting in 2015, a major focus of our business has been to increase our investment in our store teams and improve in-store execution through a number of initiatives designed to deliver more consistent experiences, while catering to Jennifer’s needs. Those key initiatives include redefining the roles and responsibilities of our store associates, and implementing a new scheduling system and standardized furniture sales training. We completed full chain roll outs of private label credit card, which provide access to revolving credit, through a third party, for use on both larger ticket items and daily purchases, and furniture coverage/warranty programs, which provides a method for obtaining multi-year warranty coverage for furniture purchases. We continue to promote our Easy Leasing lease-to-own program, which provides a single use opportunity for access to third-party financing.



In 2017, we introduced our “Store of the Future” concept which incorporates our new brand identity and seeks to enhance the way Jennifer shops our stores, including:

- Showcasing our “ownable” and “winnable” merchandise categories by moving our Furniture department to the front center of the prototype store with Seasonal and Soft Home on either side to improve the coordination of our home decorating solutions. We moved Food and Consumables to the back of the prototype store, while keeping them visible with clear sight lines from the entrance of the store. We have also added color coordinated way-finding signage to help Jennifer navigate our stores.
- Creating a warm and personalized tone throughout the store through improved lighting, new flooring, softening the colors on our walls, and greeting Jennifer with a “Hello” wall as she enters the store. We increased the length of our check-out counter and removed signage and clutter to make checking out more friendly and efficient. Additionally, we have added furniture vignettes and incorporated lifestyle photography to provide visual solutions for Jennifer.
- Highlighting our focus on the community with a “connect with the community” board that highlights local events and support. The wall behind the check out counters thanks Jennifer for shopping her community Big Lots. We personalized the signage throughout the store and back room to reflect our friendly and community-oriented values.

In addition to our efforts to improve the in-store shopping experience, we continue to focus on improving our e-commerce platform, which we launched in the spring of 2016. Our integrated e-commerce platform offers a narrowed assortment of our in-store offerings. In 2017, we began offering on our e-commerce platform expanded fabric and color options on select products in our Furniture and Seasonal categories, including items only available online. We continue to strengthen our relationships with our key vendor partners to enhance and expand our product assortments. See “Real Estate” below for the projected roll-out schedule for the Store of the Future concept.

### ***Real Estate***

Historically, we have determined that our average store size of approximately 22,000 selling square feet is appropriate for us to provide our core customer with a positive shopping experience and properly present a representative assortment of merchandise categories that our core customer finds meaningful. In late 2016, we engaged a third party specialist and began a study to analyze our store design and layout in relation to the changing retail landscape and needs of our core customers. During 2017, we began testing certain design and layout revisions and adaptations and evaluated the customer feedback and operating results. In 2017, we rolled-out our Store of the Future layout to two geographic markets and expect to convert over 600 stores to the new format by 2020. As we transition to our new Store of the Future design, we intend to open slightly larger stores with an average size of approximately 23,000 selling square feet. As we increase our capital investment in our stores, we have worked with our landlords to negotiate longer lease terms and renewal options. Through 2018, we expect to convert nearly 15% of our fleet to the Store of the Future layout through remodels and new store openings.

As discussed in “Item 2. Properties,” of this Form 10-K, we have 242 store leases that will expire in 2018. During 2018, we anticipate opening 30 new stores and closing approximately 40 of our existing locations. The majority of these closings are to relocate stores to improved locations within the same local market, with the balance resulting from a lack of renewal options or our belief that a location’s sales and operating profit volume are not strong enough to warrant additional investment in the location. As part of our evaluation of potential store closings, we consider our ability to transfer sales from a closing store to other nearby locations and generate a better overall financial result for the geographic market. For our remaining store locations with fiscal 2018 lease expirations, we expect to exercise our renewal option or negotiate lease renewal terms sufficient to allow us to continue operations and achieve an acceptable return on our investment.

## 2017 COMPARED TO 2016

### Net Sales

Net sales by merchandise category (in dollars and as a percentage of total net sales), net sales change (in dollars and percentage), and comps in 2017 compared to 2016 were as follows:

<i>(In thousands)</i>	2017		2016		Change		Comps
Furniture	\$ 1,237,022	23.6%	\$ 1,195,365	23.0%	\$ 41,657	3.5%	1.8%
Food	824,487	15.6	830,508	16.0	(6,021)	(0.7)	(1.8)
Consumables	822,533	15.6	817,747	15.7	4,786	0.6	(0.2)
Soft Home	789,596	15.0	750,814	14.4	38,782	5.2	4.2
Seasonal	765,907	14.5	739,106	14.2	26,801	3.6	3.6
Hard Home	428,788	8.1	437,575	8.4	(8,787)	(2.0)	(2.5)
Electronics, Toys, & Accessories	402,647	7.6	429,324	8.3	(26,677)	(6.2)	(7.8)
Net sales	\$ 5,270,980	100.0%	\$ 5,200,439	100.0%	\$ 70,541	1.4%	0.4%

We periodically assess and make minor adjustments to our product hierarchy, which can impact the roll-up of our merchandise categories. Our financial reporting process utilizes the most current product hierarchy in reporting net sales by merchandise category for all periods presented. Therefore, there may be minor reclassifications of net sales by merchandise category compared to previously reported amounts.

Net sales increased \$70.5 million, or 1.4%, to \$5,271.0 million in 2017, compared to \$5,200.4 million in 2016. The increase in net sales was principally due to an extra week of sales, as 2017 had 53 weeks, which increased net sales by \$69.1 million, coupled with a 0.4% increase in comps, which increased net sales by \$18.9 million. The increases in net sales were partially offset by the net decrease of 16 stores since the end of 2016, which decreased net sales by \$17.5 million.

Our Soft Home, Seasonal, and Furniture merchandise categories generated positive comps:

- **Soft Home** experienced increases in net sales and comps which were primarily driven by continued improvement in the product assortment, quality, and perceived value by our customers, particularly in our bath and kitchen textiles.
- The positive comps and increased net sales in our **Seasonal** category were primarily the result of strength in our summer and lawn & garden departments, which was the result of improved product assortment, particularly in outdoor décor and patio furniture, and strategically higher inventory levels in 2017 compared to 2016.
- The **Furniture** category experienced increased net sales and comps during 2017, primarily driven by strength in our upholstery and mattress departments and the positive impact of our Easy Leasing lease-to-own program and our third-party, private label credit card offering.

The positive comps in our Seasonal, Soft Home, and Furniture merchandise categories were partially offset by negative comps in our Consumables, Food, Hard Home and Electronics, Toys, & Accessories merchandise categories:

- **Consumables** experienced a slight decrease in comps in numerous departments due to the timing of closeout inventory purchases, which was partially offset by positive comps in our health, beauty, and cosmetics department due to the introduction of an everyday, branded product program and space expansions in our bath / body wash and over-the-counter / nutritional health departments.
- The **Food** category experienced decreased net sales and comps due to product mix imbalances, particularly in our snacks and dry goods, and a highly competitive marketplace. We invested in growing our Food inventory position from the beginning of the year to address these imbalances and in improving our assortment of “never out” products.
- The negative comps and decreased net sales in **Hard Home** and **Electronics, Toys, & Accessories** resulted from an intentionally narrowed merchandise assortment.

For 2018, we expect net sales to be in the range of flat to up slightly compared to 2017, which is based on an anticipated increase in comps in the low single digits, partially offset by a lower overall store count and the absence of the 53rd week. We expect comps above the company average in our Furniture, Soft Home and Seasonal categories, driven by continued focus on these “ownable” and “winnable” categories. We anticipate below company average comps in our Hard Home and Electronics, Toys, & Accessories categories due to continued downsizing and narrowed product assortments.

## **Gross Margin**

Gross margin dollars increased \$43.0 million, or 2.0%, to \$2,142.4 million in 2017, compared to \$2,099.4 million in 2016. The increase in gross margin dollars was principally due to an increase in net sales, which increased gross margin dollars by approximately \$28.5 million along with a higher gross margin rate, which increased gross margin dollars by approximately \$14.5 million. Gross margin as a percentage of net sales increased 20 basis points to 40.6% in 2017 compared to 40.4% in 2016. The gross margin rate increase was the result of a higher initial mark-up, driven by favorable cumulative inbound freight costs and lower product costs, and a lower shrink rate, partially offset by a higher overall markdown rate.

For 2018, we expect our gross margin rate to be up slightly compared to 2017, which is driven by continued sales growth in our higher margin “ownable” and “winnable” categories and a lower shrink rate.

## **Selling and Administrative Expenses**

Selling and administrative expenses were \$1,724.0 million in 2017, compared to \$1,731.0 million in 2016. The decrease of \$7.0 million, or 0.4%, was primarily due to the absence of pension termination related expenses of \$27.8 million, decreases in accrued bonus expense of \$9.5 million, legal settlement costs of \$7.7 million, share-based compensation expense of \$5.2 million, self-insurance costs of \$4.1 million, and utility expenses of \$3.1 million, partially offset by increases in store operations payroll of \$12.2 million, distribution and outbound transportation costs of \$9.6 million, occupancy charges of \$8.6 million, and corporate office payroll expenses of \$6.3 million, the absence of a gain on the real estate sale of \$3.8 million, and an increase in professional fees of \$2.9 million. In 2016, the pension expense included all costs associated with the termination of our pension plan including settlement charges and professional fees. The decrease in accrued bonus expense was driven by our performance relative to our operating plan in 2017 as compared to our out-performance relative to our operating plan in 2016. During 2016, we incurred \$4.8 million in charges related to State of California wage and hour claims brought against both our stores and our distribution center and an action related to our handling of hazardous materials and hazardous waste in California. Additionally, in the third quarter of 2017, we collected \$3.0 million in recoveries from our insurance carriers related to the previously disclosed tabletop torches matter. The decrease in share-based compensation expense was primarily a result of fewer performance share units expensing in 2017 compared to 2016. The decrease in self-insurance costs was driven by a decreased occurrence of high cost claims within our health benefit program. The decrease in utility expenses was primarily driven by cost saving initiatives, such as our LED lighting replacement project. The increase in store operations payroll was driven by the addition of the 53rd week in fiscal 2017. The increase in distribution and outbound transportation costs was driven by higher fuel prices in 2017 compared to 2016, coupled with additional expenses as we continue to sell and ship larger sized items in our Furniture and Seasonal categories. The increase in occupancy charges was primarily driven by annual rent increases for the renewal of expiring leases, coupled with increases in real estate taxes. The increase in corporate office payroll expenses was primarily driven by annual merit increases and the addition of the 53rd week in fiscal 2017. In the fourth quarter of 2016, we recorded a gain on real estate resulting from the sale of an owned store location, while no similar transaction occurred in 2017. The increase in professional fees was driven by consulting fees for various corporate projects.

As a percentage of net sales, selling and administrative expenses decreased by 60 basis points to 32.7% in 2017 compared to 33.3% in 2016. Our future selling and administrative expense as a percentage of net sales depends on many factors, including our level of net sales, our ability to implement additional efficiencies, principally in our store and distribution center operations, and fluctuating commodity prices, such as diesel fuel, which directly affects our outbound transportation cost.

For 2018, selling and administrative expenses as a percentage of net sales are expected to increase from 2017. Specifically, we anticipate selling and administrative expenses as a percentage of net sales will increase due to utilizing savings from U.S. federal tax reform to reinvest in our associate-related costs, including wages, and an increase in costs to support our investments in our Store of the Future initiative and our new corporate headquarters.

**Depreciation Expense**

Depreciation expense decreased \$3.4 million to \$117.1 million in 2017 compared to \$120.5 million in 2016. The decrease was driven by a reduction in new store spending in 2016 and 2017 as compared to 2011 and 2012, as the initial store construction costs on those stores are completing the depreciation cycle. Depreciation expense as a percentage of net sales decreased by 10 basis points compared to 2016.

For 2018, we expect capital expenditures to be approximately \$225 million to \$230 million, which is an increase compared to 2017 when capital expenditures were approximately \$143 million. The increase in expected capital expenditures is driven by our anticipated investments in strategic initiatives to support future growth including our investment in the Store of the Future and equipment for our new distribution center in California. Our 2018 expectations also includes maintenance capital for our stores, distribution centers, and corporate offices, and investments in the construction costs associated with opening 30 new stores. Based on our anticipated level of capital expenditures in 2018 and the run rate of depreciation on our existing property and equipment, we expect 2018 depreciation expense to be approximately \$120 million, compared to \$117 million in 2017.

**Operating Profit**

Operating profit was \$301.4 million in 2017 as compared to \$248.0 million in 2016. The increase in operating profit was primarily driven by the items discussed in the “Net Sales,” “Gross Margin,” “Selling and Administrative Expenses,” and “Depreciation Expense” sections above. In summary, operating profit was driven by increases in sales and gross margin, coupled with decreases in selling and administrative expenses and depreciation expense. Additionally, our operating profit increased by approximately \$7 million as a result of the addition of the 53rd week in fiscal 2017.

**Interest Expense**

Interest expense increased \$1.6 million to \$6.7 million in 2017 compared to \$5.1 million in 2016. The increase was primarily driven by an increase in our average interest rate on our revolving debt, as our revolving debt was impacted by increases in the LIBOR rate. Additionally, we maintained a slightly higher average borrowings under the 2011 Credit Agreement. We had total average borrowings (including capital leases) of \$241.5 million in 2017 compared to total average borrowings of \$240.7 million in 2016. The slight increase in our average borrowings (including capital leases) was driven by increases in our capital lease liabilities.

**Other Income (Expense)**

Other income (expense) was \$0.7 million in 2017, compared to \$1.4 million in 2016. The change from 2016 to 2017 was related to our diesel fuel hedging contracts, driven by a change in pricing trends for diesel fuel.

**Income Taxes**

The effective income tax rate in 2017 and 2016 was 35.7% and 37.4%, respectively. The decrease in our effective rate was principally driven by the following:

- The net excess tax benefits associated with settlement of share-based payment awards due to the adoption of ASU 2016-09;
- The lower rate on 2017 current taxable income due to enactment of federal legislation on December 22, 2017 commonly referred to as the Tax Cut and Jobs Act (“TCJA”) that resulted in a lower blended 2017 rate (prorated based on a January 1, 2018 effective date for the rate reduction); and
- A decrease in the nondeductible expenses.

The rate decreases were offset by the estimated effects of the TCJA corporate income tax rate reduction on our net deferred tax assets resulting in the provisional recognition of income tax expense.

## 2016 COMPARED TO 2015

### Net Sales

Net sales by merchandise category, in dollars and as a percentage of total net sales, net sales change in dollars and percentage, and comps from 2016 compared to 2015 were as follows:

<i>(In thousands)</i>	2016		2015		Change		Comps
Furniture	\$ 1,195,365	23.0%	\$ 1,135,757	21.9%	\$ 59,608	5.2%	5.7%
Food	830,508	16.0	845,541	16.3	(15,033)	(1.8)	(1.0)
Consumables	817,747	15.7	826,530	15.9	(8,783)	(1.1)	(0.2)
Soft Home	750,814	14.4	718,666	13.8	32,148	4.5	5.4
Seasonal	739,106	14.2	725,238	14.0	13,868	1.9	2.6
Hard Home	437,575	8.4	477,451	9.2	(39,876)	(8.4)	(7.5)
Electronics, Toys, & Accessories	429,324	8.3	461,399	8.9	(32,075)	(7.0)	(6.5)
Net sales	\$ 5,200,439	100.0%	\$ 5,190,582	100.0%	\$ 9,857	0.2%	0.9%

Net sales increased \$9.9 million, or 0.2% to \$5,200.4 million in 2016, compared to \$5,190.6 million in 2015. The increase in net sales was principally due to a 0.9% increase in comps, which increased net sales by \$45.8 million, partially offset by the net decrease of 17 stores since the end of 2015, which decreased net sales by \$35.9 million.

Our Furniture, Soft Home, and Seasonal merchandise categories generated positive comps:

- The **Furniture** category experienced positive net sales and comps during 2016, primarily driven by strength in our mattress, case goods, and upholstery departments, which were positively impacted by an expansion of allocated square footage in approximately 50% of our stores during the first quarter of 2016, the performance of our Easy Leasing lease-to-own program, and the introduction of a third party, private label credit card offering.
- **Soft Home** experienced increases in net sales and comps which were primarily driven by continued broad-based improvement in the product assortment, quality and perceived value by our customers.
- The positive net sales and comps in our **Seasonal** category were driven by strength in our lawn & garden and summer departments. The strength in our lawn & garden and summer departments was primarily a result of improved product assortment and a favorable weather pattern in the first quarter of 2016 as compared to the first quarter of 2015, which experienced an extended winter.

The net sales and comp increases in Furniture, Soft Home, and Seasonal were partially offset by slightly negative net sales and comps in Consumables and Food and larger negative net sales and comps in our Hard Home and Electronics, Toys, & Accessories categories:

- The **Consumables** category experienced slightly negative comps and negative net sales, driven by negative comps in our paper department, due to fewer closeout opportunities. This was partially offset by positive comps in our pet department where we introduced an exclusive label offering in 2015 that has continued to grow, coupled with positive performance in our health, beauty, and cosmetics department due to the introduction of an everyday, branded product program.
- The **Food** category experienced a slight decrease in net sales and comps due to merchandising execution, such as product mix imbalances, and the timing of closeout inventory purchases.
- The negative net sales and comps in **Electronics, Toys, & Accessories** were a result of a reduced product offerings from our “edit” activities in the electronics department, as we continue to refine our understanding of where we can be successful in this category.
- **Hard Home** experienced negative net sales and comps as a result of an intentionally narrowed assortment, primarily from a reduction in allocated space executed in the first quarter of 2016.

### Gross Margin

Gross margin dollars increased \$32.3 million, or 1.6%, to \$2,099.4 million in 2016, compared to \$2,067.1 million in 2015. The increase in gross margin dollars was principally due to a higher gross margin rate, which increased gross margin dollars by approximately \$28.4 million along with an increase in net sales, which increased gross margin dollars by approximately \$3.9 million. Gross margin as a percentage of net sales increased 60 basis points to 40.4% in 2016 compared to 39.8% in 2015. The gross margin rate increase was principally due to the impact of a higher initial mark-up. The higher initial mark-up was a product of lower inbound freight costs, increased sales of higher margin products, and slightly favorable merchandise costs.

### **Selling and Administrative Expenses**

Selling and administrative expenses were \$1,731.0 million in 2016, compared to \$1,708.5 million in 2015. The increase of \$22.5 million, or 1.3%, was primarily due to increases in share-based compensation of \$19.6 million, pension termination related expenses of \$14.9 million, administrative costs to support our e-commerce platform of \$10.0 million, and accruals for legal settlements of \$5.1 million, partially offset by decreases in distribution and outbound transportation costs of \$7.5 million, a gain on the sale of real estate of \$3.8 million, a decrease in self-insurance costs of \$3.8 million, and the absence of a \$4.5 million loss contingency associated with a merchandise related legal matter, which occurred during the second quarter of 2015. The increase in share-based compensation expense was driven by performance share units (“PSUs”), which had not met the accounting requirements for expensing prior to the first quarter of 2016. The increase in pension expense includes all costs associated with the termination of our pension plan including settlement charges and professional fees. The increase in administrative costs to support our e-commerce platform was attributable to the launch of our e-commerce platform during the first quarter of 2016 and, as a result, many of these costs were not incurred in 2015. In 2016, we incurred \$4.8 million in charges related to wage and hour claims brought against us in the State of California associated with both our stores and our distribution center as well as for an action related to our handling of hazardous materials and hazardous waste in California. The decrease in distribution and outbound transportation costs was driven by operational efficiencies generated at our distribution centers and through our outbound transportation initiatives, as well as lower diesel fuel prices, during 2016 as compared to 2015. The gain on the sale of real estate resulted from the sale of an owned store location in the fourth quarter of 2016. The decrease in self-insurance costs was due to a decrease in the occurrence of high cost claims within our general liability program.

As a percentage of net sales, selling and administrative expenses increased by 40 basis points to 33.3% in 2016 compared to 32.9% in 2015. Our future selling and administrative expense as a percentage of net sales depends on many factors, including our level of net sales, our ability to implement additional efficiencies, principally in our store and distribution center operations, and fluctuating commodity prices, such as diesel fuel, which directly affects our outbound transportation cost.

### **Depreciation Expense**

Depreciation expense decreased \$2.4 million to \$120.5 million in 2016 compared to \$122.9 million in 2015. The decrease was driven by a reduction in new store spending in 2014 and 2015 as compared to 2010 and 2011, as the initial store construction costs on those stores are completing the depreciation cycle. This decrease was partially offset by the depreciation of our e-commerce platform, which was placed into service in the first quarter of 2016. Depreciation expense as a percentage of net sales decreased by 10 basis points compared to 2015.

### **Operating Profit**

Operating profit was \$248.0 million in 2016 as compared to \$235.8 million in 2015. The increase in operating profit was primarily driven by the items discussed in the “Net Sales”, “Gross Margin”, “Selling and Administrative Expenses”, and “Depreciation Expense” sections above. In summary, the increase in our comps and gross margin rate coupled with a decrease in depreciation expense was partially offset by an increase in selling and administrative expenses.

### **Interest Expense**

Interest expense increased \$1.4 million to \$5.1 million in 2016 compared to \$3.7 million in 2015. The increase was driven by higher average borrowings under the 2011 Credit Agreement. We had total average borrowings (including capital leases) of \$240.7 million in 2016 compared to total average borrowings of \$177.2 million in 2015. The increase in our average revolving debt balance was primarily the result of year-over-year changes in the timing and amount of our share repurchase activity.

### **Other Income (Expense)**

Other income (expense) was \$1.4 million in 2016, compared to \$(5.3) million in 2015. We recognized unrealized gains of \$3.7 million partially offset by realized losses of \$2.3 million in 2016 related to our diesel fuel hedging contracts, driven by an increase in current and future projected diesel fuel prices, which positively impacted valuation. We recognized unrealized losses of \$4.7 million along with realized losses of \$0.5 million in 2015 related to our diesel fuel hedging contracts, driven by a decrease in current and future projected diesel fuel prices which negatively impacted valuation.

### **Income Taxes**

The effective income tax rate in 2016 and 2015 was 37.4% and 37.0%, respectively. The increase in our effective rate was principally driven by an increase in nondeductible expenses and a net decrease in settlements and lapses of the statute of limitations.

## Capital Resources and Liquidity

On July 22, 2011, we entered into a \$700 million five-year unsecured credit facility. On May 28, 2015, we entered into a second amendment of the credit facility that among other things extended its term to May 30, 2020 (as amended, the “2011 Credit Agreement”). In connection with our original entry into the 2011 Credit Agreement, we paid bank fees and other expenses in the aggregate amount of \$3.0 million, which are being amortized over the term of the agreement. In connection with the second amendment of the 2011 Credit Agreement, we paid bank fees and other expenses in the amount of \$0.8 million, which are being amortized over the term of the agreement. Borrowings under the 2011 Credit Agreement are available for general corporate purposes and working capital. The 2011 Credit Agreement includes a \$30 million swing loan sublimit and a \$150 million letter of credit sublimit. The interest rates, pricing and fees under the 2011 Credit Agreement fluctuate based on our debt rating. The 2011 Credit Agreement allows us to select our interest rate for each borrowing from multiple interest rate options. The interest rate options are generally derived from the prime rate or LIBOR. We may prepay revolving loans made under the 2011 Credit Agreement. The 2011 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. Additionally, we are subject to cross-default provisions associated with the Synthetic Lease. A violation of any of the covenants could result in a default under the 2011 Credit Agreement that would permit the lenders to restrict our ability to further access the 2011 Credit Agreement for loans and letters of credit and require the immediate repayment of any outstanding loans under the 2011 Credit Agreement. At February 3, 2018, we were in compliance with the covenants of the 2011 Credit Agreement.

We use the 2011 Credit Agreement, as necessary, to provide funds for ongoing and seasonal working capital, capital expenditures, share repurchase programs, and other expenditures. In addition, we use the 2011 Credit Agreement to provide letters of credit for various operating and regulatory requirements, and if needed, letters of credit required to cover our self-funded insurance programs. Given the seasonality of our business, the amount of borrowings under the 2011 Credit Agreement may fluctuate materially depending on various factors, including our operating financial performance, the time of year, and our need to increase merchandise inventory levels prior to the peak selling season. Generally, our working capital requirements peak late in our third fiscal quarter or early in our fourth fiscal quarter. We have typically funded those requirements with borrowings under our credit facility. In 2017, our total indebtedness (outstanding borrowings and letters of credit) under the 2011 Credit Agreement peaked at approximately \$425 million in November. At February 3, 2018, we had \$199.8 million in outstanding borrowings under the 2011 Credit Agreement and \$495.2 million in borrowings available under the 2011 Credit Agreement, after taking into account the reduction in availability resulting from outstanding letters of credit totaling \$5.0 million. Working capital was \$432.4 million at February 3, 2018.

The primary source of our liquidity is cash flows from operations and, as necessary, borrowings under the 2011 Credit Agreement. Our net income and, consequently, our cash provided by operations are impacted by net sales volume, seasonal sales patterns, and operating profit margins. Our net sales are typically highest during the nine-week Christmas selling season in our fourth fiscal quarter.

Whenever our liquidity position requires us to borrow funds under the 2011 Credit Agreement, we typically repay and/or borrow on a daily basis. The daily activity is a net result of our liquidity position, which is generally driven by the following components of our operations: (1) cash inflows such as cash or credit card receipts collected from stores for merchandise sales and other miscellaneous deposits; and (2) cash outflows such as check clearings, wire transfers and other electronic transactions for the acquisition of merchandise, for payment of capital expenditures, and for payment of payroll and other operating expenses, income and other taxes, employee benefits, and other miscellaneous disbursements.

On February 28, 2017, our Board of Directors authorized a share repurchase program providing for the repurchase of \$150 million of our common shares (“2017 Repurchase Program”). During 2017, we exhausted this program by purchasing approximately 3.1 million of our outstanding common shares at an average price of \$48.04.

On March 7, 2018, our Board of Directors authorized a share repurchase program providing for the repurchase of \$100 million of our common shares (the “2018 Repurchase Program”). Pursuant to the 2018 Repurchase Program, we are authorized to repurchase shares in the open market and/or in privately negotiated transactions at our discretion, subject to market conditions and other factors. Common shares acquired through the 2018 Repurchase Program will be available to meet obligations under our equity compensation plans and for general corporate purposes. The 2018 Repurchase Program has no scheduled termination date and will be funded with cash and cash equivalents, cash generated from operations and by drawing on the 2011 Credit Agreement.

In 2017, we declared and paid four quarterly cash dividends of \$0.25 per common share for a total paid amount of approximately \$44.7 million.

In March 2018, our Board increased our quarterly dividend payment rate by approximately 20% by declaring a quarterly cash dividend of \$0.30 per common share payable on April 6, 2018 to shareholders of record as of the close of business on March 23, 2018.

The following table compares the primary components of our cash flows from 2017 to 2016:

<i>(In thousands)</i>	<b>2017</b>	<b>2016</b>	<b>Change</b>
Net cash provided by operating activities	\$ 250,368	\$ 311,925	\$ (61,557)
Net cash used in investing activities	(156,508)	(84,701)	(71,807)
Net cash used in financing activities	\$ (93,848)	\$ (230,204)	\$ 136,356

Cash provided by operating activities decreased by \$61.6 million to \$250.4 million in 2017 compared to \$311.9 million in 2016. The decrease was driven by a decrease to accounts payable, which decreased our cash provided by operating activities by \$67.5 million in 2017 compared to 2016. The decrease to accounts payable was primarily driven by partnering with our vendor community, through changes in certain payment terms, which accounted for approximately \$40 million of the decrease, and the timing of purchases of inventory while we prepare for our Spring selling season. The decrease in accounts payable was coupled with increases in other current assets and a decrease in other current liabilities. The increase in other current assets, which decreased our cash provided by operating activities by \$12.1 million was driven by increases in various receivables, primarily from landlords and vendors. The decrease in other current liabilities, which decreased our cash provided by operating activities by \$10.5 million was primarily driven by payments related to the termination of our pension plan in 2016, partially offset by a decrease in bonus accruals. As discussed in our "Selling and Administrative Expenses" section, the decrease in bonus accruals year over year was driven by performance relative to our operating plan. Partially offsetting the decrease in cash provided by operating activities was an increase in net income of \$37.0 million, which was primarily driven by the increase in comparable stores sales and an improved operating profit rate in 2017. Additionally, a change in our income tax position (current and deferred) and a lower effective tax rate, increased our net cash provided by operating activities by \$3.0 million. The shift from deferred to current taxes payable was primarily driven by significant favorable deductible temporary differences for 2017, and by tax planning activities.

Cash used in investing activities increased by \$71.8 million to \$156.5 million in 2017 compared to \$84.7 million in 2016. The increase was primarily driven by a \$52.9 million increase in capital expenditures to \$142.7 million in 2017 compared to \$89.8 million in 2016. The increase in capital expenditures was driven by our increased investment in our new store openings and our Store of the Future remodels at twenty-seven of our locations in 2017, and fixtures and equipment for our new corporate office and new California distribution center. The increase in capital expenditures was coupled with an increase in assets acquired under synthetic lease of \$15.6 million and a decrease in cash proceeds of \$3.2 million. The increase in assets acquired under synthetic lease was driven by the Synthetic Lease for our new distribution center in Apple Valley, California during the fourth quarter of 2017. The decrease in cash proceeds of \$3.2 million was driven by the sale of property in the fourth quarter of 2016, while no similar transaction occurred in 2017.

Cash used in financing activities decreased by \$136.4 million to \$93.8 million in 2017 compared to \$230.2 million in 2016. The primary driver of this decrease was an \$88.5 million decrease in payments for treasury shares acquired to \$165.8 million in 2017 from \$254.3 million in 2016, coupled with an increase of \$49.3 million in net borrowings under our bank credit facility to \$93.4 million in 2017 compared to \$44.1 million in 2016, and an increase of \$15.6 million for proceeds from the Synthetic Lease. The increase in net borrowings was principally driven by the changes in our accounts payable position, discussed in cash provided by operating activities above. Partially offsetting these decreases were a decrease of \$10.0 million in proceeds from stock option exercises and an increase in dividends paid of \$6.2 million.

Based on historical and expected financial results, we believe that we have or, if necessary, have the ability to obtain, adequate resources to fund ongoing and seasonal working capital requirements, proposed capital expenditures, new projects, and currently maturing obligations. On a consolidated basis, we expect cash provided by operating activities less capital expenditures to be approximately \$120 to \$130 million in 2018; and we intend to distribute approximately \$150 million to shareholders through the 2018 Repurchase Program and quarterly dividend payments.



## Contractual Obligations

The following table summarizes payments due under our contractual obligations at February 3, 2018:

<i>(In thousands)</i>	Payments Due by Period <sup>(1)</sup>				
	Total	Less than			More than
		1 year	1 to 3 years	3 to 5 years	5 years
Obligations under bank credit facility <sup>(2)</sup>	\$ 200,088	\$ 288	\$ —	\$ 199,800	\$ —
Operating lease obligations <sup>(3)(4)</sup>	1,412,258	344,041	532,241	289,736	246,240
Capital lease obligations <sup>(4)</sup>	17,519	4,760	8,812	3,860	87
Purchase obligations <sup>(4)(5)</sup>	812,094	705,115	96,313	8,705	1,961
Other long-term liabilities <sup>(6)</sup>	84,106	8,355	10,497	10,107	55,147
Total contractual obligations	\$ 2,526,065	\$ 1,062,559	\$ 647,863	\$ 512,208	\$ 303,435

- (1) The disclosure of contractual obligations in this table is based on assumptions and estimates that we believe to be reasonable as of the date of this report. Those assumptions and estimates may prove to be inaccurate; consequently, the amounts provided in the table may differ materially from those amounts that we ultimately incur. Variables that may cause the stated amounts to vary from the amounts actually incurred include, but are not limited to: the termination of a contractual obligation prior to its stated or anticipated expiration; fees or damages incurred as a result of the premature termination or breach of a contractual obligation; the acquisition of more or less services or goods under a contractual obligation than are anticipated by us as of the date of this report; fluctuations in third party fees, governmental charges, or market rates that we are obligated to pay under contracts we have with certain vendors; and the exercise of renewal options under, or the automatic renewal of, contracts that provide for the same.
- (2) Obligations under the bank credit facility consist of the borrowings outstanding under the 2011 Credit Agreement, and the associated accrued interest of \$0.3 million. In addition, we had outstanding letters of credit totaling \$59.6 million at February 3, 2018. Approximately \$57.6 million of the outstanding letters of credit represent stand-by letters of credit and we do not expect to meet the conditions requiring significant cash payments on these letters of credit; accordingly, they have been excluded from this table. For a further discussion, see note 3 to the accompanying consolidated financial statements. The remaining \$2.0 million of outstanding letters of credit represent commercial letters of credit whereby the related obligation is included in the purchase obligation.
- (3) Operating lease obligations include, among other items, leases for retail stores, offices, and certain computer and other business equipment. The future minimum commitments for retail store and office operating leases are \$1,118.8 million. For a further discussion of leases, see note 5 to the accompanying consolidated financial statements. Many of the store lease obligations require us to pay for our applicable portion of CAM, real estate taxes, and property insurance. In connection with our store lease obligations, we estimated that future obligations for CAM, real estate taxes, and property insurance were \$293.4 million at February 3, 2018. We have made certain assumptions and estimates in order to account for our contractual obligations relative to CAM, real estate taxes, and property insurance. Those assumptions and estimates include, but are not limited to: use of historical data to estimate our future obligations; calculation of our obligations based on comparable store averages where no historical data is available for a particular leasehold; and assumptions related to average expected increases over historical data.
- (4) For purposes of the lease and purchase obligation disclosures, we have assumed that we will make all payments scheduled or reasonably estimated to be made under those obligations that have a determinable expiration date, and we disregarded the possibility that such obligations may be prematurely terminated or extended, whether automatically by the terms of the obligation or by agreement between us and the counterparty, due to the speculative nature of premature termination or extension. Where an operating lease or purchase obligation is subject to a month-to-month term or another automatically renewing term, we included in the table our minimum commitment under such obligation, such as one month in the case of a month-to-month obligation and the then-current term in the case of another automatically renewing term, due to the uncertainty of future decisions to exercise options to extend or terminate any existing leases.

- (5) Purchase obligations include outstanding purchase orders for merchandise issued in the ordinary course of our business that are valued at \$415.3 million, the entirety of which represents obligations due within one year of February 3, 2018. In addition, we have purchase commitments for future inventory purchases totaling \$11.5 million at February 3, 2018. While we are not required to meet any periodic minimum purchase requirements under this commitment, we have included, for purposes of this tabular disclosure, the value of the purchases that we anticipate making during each of the reported periods as purchases that will count toward our fulfillment of the aggregate obligation. The remaining \$385.3 million of purchase obligations is primarily related to distribution and transportation, information technology, print advertising, energy procurement, and other store security, supply, and maintenance commitments.
- (6) Other long-term liabilities include \$33.4 million for obligations related to our nonqualified deferred compensation plan, \$30.9 million for a charitable commitment, \$15.6 million for the Synthetic Lease, and \$2.8 million for unrecognized tax benefits. We have estimated the payments due by period for the nonqualified deferred compensation plan based on an average of historical distributions. We have committed to make a \$40.0 million charitable donation over a 10-year period, and we have a remaining obligation of \$30.9 million over the next nine years. We have entered into the Synthetic Lease for our new distribution center in California. We have included unrecognized tax benefits of \$2.2 million for payments expected in 2017 and \$0.6 million of timing-related income tax uncertainties anticipated to reverse in 2018. Unrecognized tax benefits in the amount of \$14.4 million have been excluded from the table because we are unable to make a reasonably reliable estimate of the timing of future payments.

### **Off-Balance Sheet Arrangements**

Not applicable.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. The use of estimates, judgments, and assumptions creates a level of uncertainty with respect to reported or disclosed amounts in our consolidated financial statements or accompanying notes. On an ongoing basis, management evaluates its estimates, judgments, and assumptions, including those that management considers critical to the accurate presentation and disclosure of our consolidated financial statements and accompanying notes. Management bases its estimates, judgments, and assumptions on historical experience, current trends, and various other factors that management believes are reasonable under the circumstances. Because of the inherent uncertainty in using estimates, judgments, and assumptions, actual results may differ from these estimates.

Our significant accounting policies, including the recently adopted accounting standards and recent accounting standards - future adoptions, if any, are described in note 1 to the accompanying consolidated financial statements. We believe the following estimates, assumptions, and judgments are the most critical to understanding and evaluating our reported financial results. Management has reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

#### **Merchandise Inventories**

Merchandise inventories are valued at the lower of cost or market using the average cost retail inventory method. Market is determined based on the estimated net realizable value, which generally is the merchandise selling price at or near the end of the reporting period. The average cost retail inventory method requires management to make judgments and contains estimates, such as the amount and timing of markdowns to clear slow-moving inventory and the estimated allowance for shrinkage, which may impact the ending inventory valuation and prior or future gross margin. These estimates are based on historical experience and current information.

When management determines the salability of merchandise inventories is diminished, markdowns for clearance activity and the related cost impact are recorded at the time the price change decision is made. Factors considered in the determination of markdowns include current and anticipated demand, customer preferences, the age of merchandise, and seasonal trends. Timing of holidays within fiscal periods, weather, and customer preferences could cause material changes in the amount and timing of markdowns from year to year.

The inventory allowance for shrinkage is recorded as a reduction to inventories, charged to cost of sales, and calculated as a percentage of sales for the period from the last physical inventory date to the end of the reporting period. Such estimates are based on both our current year and historical inventory results. Independent physical inventory counts are taken at each store once a year. During calendar 2018, the majority of these counts will occur between January and June. As physical inventories are completed, actual results are recorded and new go-forward shrink accrual rates are established based on historical results at the individual store level. Thus, the shrink accrual rates will be adjusted throughout the January to June inventory cycle based on actual results. At February 3, 2018, a 10% difference in our shrink reserve would have affected gross margin, operating profit and income before income taxes by approximately \$3.2 million. While it is not possible to quantify the impact from each cause of shrinkage, we have asset protection programs and policies aimed at minimizing shrinkage.

### **Long-Lived Assets**

Our long-lived assets primarily consist of property and equipment. We perform impairment reviews of our long-lived assets at the store level on an annual basis, or when other impairment indicators are present. Generally, all other property and equipment is reviewed for impairment at the enterprise level. When we perform our annual impairment reviews, we first determine which stores had impairment indicators present. We use actual historical cash flows to determine which stores had negative cash flows within the past two years. For each store with negative cash flows or other impairment indicators, we obtain undiscounted future cash flow estimates based on operating performance estimates specific to each store's operations that are based on assumptions currently being used to develop our company level operating plans. If the net book value of a store's long-lived assets is not recoverable through the expected undiscounted future cash flows of the store, we estimate the fair value of the store's assets and recognize an impairment charge for the excess net book value of the store's long-lived assets over their fair value. The fair value of store assets is estimated based on expected cash flows, including salvage value, which is based on information available in the marketplace for similar assets.

We identified one store in 2016 and two stores in 2015, respectively, with impairment indicators as a result of our annual store impairment tests. For these stores, we recognized impairment charges of \$0.1 million and \$0.4 million in 2016, and 2015, respectively. In 2017, we did not identify any stores with impairment indicators during our annual review and therefore, did not recognize any impairment charges. We do not believe that varying the assumptions used to test for recoverability to estimate fair value of our long-lived assets would have a material impact on the impairment charges we incurred in 2016 or 2015.

If our future operating results decline significantly, we may be exposed to impairment losses that could be material (for additional discussion of this risk, see "Item 1A. Risk Factors - 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.").

In addition to our annual store impairment reviews, we evaluate our other long-lived assets at each reporting period to determine whether impairment indicators are present.

### **Share-Based Compensation**

We currently grant non-vested restricted stock units and PSUs to our employees under shareholder approved incentive plans. Additionally, we have granted stock options and non-vested restricted stock awards in prior years. Share-based compensation expense was \$27.8 million, \$33.0 million, and \$13.5 million in 2017, 2016, and 2015, respectively. Future share-based compensation expense for non-vested restricted stock units depends on the future number of awards, fair value of our common shares on the grant date, and the estimated vesting period. Future share-based compensation expense for PSUs is dependent upon the future number of awards, the estimated vesting period, the grant date of the award which may vary from the issuance date, financial results relative to the targets established for each fiscal year within the three-year performance period, and potentially other estimates, judgments and assumptions used in arriving at the fair value of PSUs. Future share-based compensation expense related to non-vested restricted stock units and PSUs may vary materially from the currently amortizing awards.

Compensation expense for non-vested restricted stock units is recorded over the contractual vesting period based on our expectation of achieving the performance criteria. We monitor the achievement of the performance criteria at each reporting period.

We issued PSUs to certain employees in 2015, 2016, and 2017. The PSUs issued in 2015, 2016 and 2017 were structured to reflect specific shareholder feedback and are based on a three-year financial performance period and are payable to associates at the end of the third year assuming certain financial performance metrics are achieved. Those financial metrics include earnings per share (“EPS”) and return on invested capital (“ROIC”). Financial performance targets (for both EPS and ROIC) are established by the Compensation Committee of our Board of Directors at the beginning of each fiscal year based on our approved operating plan. From an accounting perspective, a grant date will be deemed to be established when all financial targets are determined, which occurred in March 2017 for the PSUs issued in 2015, and is estimated to occur in March 2018 and March 2019 for the PSUs issued in 2016 and 2017, respectively. Compensation expense for the PSUs will be recorded (1) based on fair value of the award on the grant date and the estimated achievement of financial performance objectives, and (2) on a straight-line basis from the grant date, which may vary from the issuance date, through the vesting date. Accordingly, based on this accounting treatment, there was no expense recognized in fiscal 2015 or fiscal 2016 related to the PSUs issued in 2015. On March 7, 2017, the Compensation Committee established the 2017 performance targets, which established the grant date, and, therefore, the fair value of the PSUs issued in 2015. We monitored the estimated achievement of the financial performance objectives at each reporting period end and adjusted the estimated expense on a cumulative basis. In 2017, we recognized \$15.4 million in share-based compensation expense related to the PSUs issued in 2015. In 2016, we recognized \$17.5 million in share-based compensation expense related to the PSUs issued in 2014.

At February 3, 2018, PSUs issued and outstanding were as follows:

<b>Issue Year</b>	<b>Outstanding PSUs at February 3, 2018</b>	<b>Actual Grant Date</b>	<b>Expected Valuation (Grant) Date</b>
2015	249,324	March 2017	
2016	337,421		March 2018
2017	268,296		March 2019
<b>Total</b>	<b>855,041</b>		

### **Income Taxes**

The determination of our income tax expense, refunds receivable, income taxes payable, deferred tax assets and liabilities and financial statement recognition, de-recognition and/or measurement of uncertain tax benefits (for positions taken or to be taken on income tax returns) requires significant judgment, the use of estimates, and the interpretation and application of complex accounting and multi-jurisdictional income tax laws.

The effective income tax rate in any period may be materially impacted by the overall level of income (loss) before income taxes, the jurisdictional mix and magnitude of income (loss), changes in the income tax laws (which may be retroactive to the beginning of the fiscal year), subsequent recognition, de-recognition and/or measurement of an uncertain tax benefit, changes in deferred tax asset valuation allowances and adjustments of a deferred tax asset or liability for enacted changes in tax laws or rates, such as the Tax Cuts and Jobs Act. Although we believe that our estimates are reasonable, actual results could differ from these estimates resulting in a final tax outcome that may be materially different from that which is reflected in our consolidated financial statements.

We evaluate our ability to recover our deferred tax assets within the jurisdiction from which they arise. We consider all available positive and negative evidence including recent financial results, projected future pretax accounting income and tax planning strategies (when necessary). This evaluation requires us to make assumptions that require significant judgment about the forecasts of future pretax accounting income. The assumptions that we use in this evaluation are consistent with the assumptions and estimates used to develop our consolidated operating financial plans. If we determine that a portion of our deferred tax assets, which principally represent expected future deductions or benefits, are not likely to be realized, we recognize a valuation allowance for our estimate of these benefits which we believe are not likely recoverable. Additionally, changes in tax laws, apportionment of income for state and local tax purposes, and rates could also affect recorded deferred tax assets.

We evaluate the uncertainty of income tax positions taken or to be taken on income tax returns. When a tax position meets the more-likely-than-not threshold, we recognize economic benefits associated with the position on our consolidated financial statements. The more-likely-than-not recognition threshold is a positive assertion that an enterprise believes it is entitled to economic benefits associated with a tax position. When a tax position does not meet the more-likely-than-not threshold, or in the case of those positions that do meet the threshold but are measured at less than the full benefit taken on the return, we recognize tax liabilities (or de-recognize tax assets, as the case may be). A number of years may elapse before a particular matter, for which we have de-recognized a tax benefit, is audited and fully resolved or clarified. We adjust unrecognized tax benefits and the income tax provision in the period in which an uncertain tax position is effectively or ultimately settled, the

statute of limitations expires for the relevant taxing authority to examine the tax position, or as a result of the evaluation of new information that becomes available.

### Insurance and Insurance-Related Reserves

We are self-insured for certain losses relating to property, general liability, workers' compensation, and employee medical, dental, and prescription drug benefit claims, a portion of which is funded by employees. We purchase stop-loss coverage from third party insurance carriers to limit individual or aggregate loss exposures in these areas. Accrued insurance liabilities and related expenses are based on actual claims reported and estimates of claims incurred but not reported. The estimated loss accruals for claims incurred but not paid are determined by applying actuarially-based calculations taking into account historical claims payment results and known trends such as claims frequency and claims severity. Management makes estimates, judgments, and assumptions with respect to the use of these actuarially-based calculations, including but not limited to, estimated health care cost trends, estimated lag time to report and pay claims, average cost per claim, network utilization rates, network discount rates, and other factors. A 10% change in our self-insured liabilities at February 3, 2018 would have affected selling and administrative expenses, operating profit, and income before income taxes by approximately \$7 million.

General liability and workers' compensation liabilities are recorded at our estimate of their net present value, using a 3.5% discount rate, while other liabilities for insurance reserves are not discounted. A 1.0% change in the discount rate on these liabilities would have affected selling and administrative expenses, operating profit, and income before income taxes by approximately \$2.2 million.

### Lease Accounting

In order to recognize rent expense on our leases, we evaluate many factors to identify the lease term such as the contractual term of the lease, our assumed possession date of the property, renewal option periods, and the estimated value of leasehold improvement investments that we are required to make. Based on this evaluation, our lease term is typically the minimum contractually obligated period over which we have control of the property. This term is used because although many of our leases have renewal options, we typically do not incur an economic or contractual penalty in the event of non-renewal. Therefore, we typically use the initial minimum lease term for purposes of calculating straight-line rent, amortizing deferred rent, and recognizing depreciation expense on our leasehold improvements.

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

We are subject to market risk from exposure to changes in interest rates on investments and on borrowings under the 2011 Credit Agreement that we make from time to time. We had borrowings of \$199.8 million under the 2011 Credit Agreement at February 3, 2018. An increase of 1% in our variable interest rate on our investments and expected future borrowings could affect our financial condition, results of operations, or liquidity through higher interest expense by approximately \$2.4 million.

We are subject to market risk from exposure to changes in our derivative instruments, associated with diesel fuel. At February 3, 2018, we had outstanding derivative instruments, in the form of collars, covering 3.6 million gallons of diesel fuel. The below table provides further detail related to our current derivative instruments, associated with diesel fuel.

Calendar Year of Maturity	Diesel Fuel Derivatives		Fair Value
	Puts	Calls	Asset (Liability)
	<i>(Gallons, in thousands)</i>		<i>(In thousands)</i>
2018	2,400	2,400	\$ 219
2019	1,200	1,200	171
2020	—	—	—
<b>Total</b>	<b>3,600</b>	<b>3,600</b>	<b>\$ 390</b>

Additionally, at February 3, 2018, a 10% difference in the forward curve for diesel fuel prices could affect unrealized gains (losses) in other income (expense) by approximately \$1.1 million.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Big Lots, Inc.

#### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of Big Lots, Inc. and subsidiaries (the “Company”) as of February 3, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements as of and for the year ended February 3, 2018, of the Company and our report dated April 3, 2018 expressed an unqualified opinion on those financial statements.

#### **Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### **Definition and Limitations of Internal Control over Financial Reporting**

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**/s/ DELOITTE & TOUCHE LLP**

Columbus, Ohio  
April 3, 2018

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Big Lots, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Big Lots, Inc. and subsidiaries (the “Company”) as of February 3, 2018 and January 28, 2017, the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows, for each of the three years in the period ended February 3, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 3, 2018 and January 28, 2017, and the results of its operations and its cash flows for each of the three years in the period ended February 3, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of February 3, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 3, 2018, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ **DELOITTE & TOUCHE LLP**

Columbus, Ohio  
April 3, 2018

We have served as the Company’s auditor since 1989.

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

	2017	2016	2015
Net sales	\$ 5,270,980	\$ 5,200,439	\$ 5,190,582
Cost of sales (exclusive of depreciation expense shown separately below)	3,128,538	3,101,020	3,123,442
Gross margin	2,142,442	2,099,419	2,067,140
Selling and administrative expenses	1,723,996	1,730,956	1,708,499
Depreciation expense	117,093	120,460	122,854
Operating profit	301,353	248,003	235,787
Interest expense	(6,711)	(5,091)	(3,683)
Other income (expense)	712	1,387	(5,254)
Income before income taxes	295,354	244,299	226,850
Income tax expense	105,522	91,471	83,977
Net income	\$ 189,832	\$ 152,828	\$ 142,873
Earnings per common share:			
Basic	\$ 4.43	\$ 3.37	\$ 2.83
Diluted	\$ 4.38	\$ 3.32	\$ 2.80
Cash dividends declared per common share			
	\$ 1.00	\$ 0.84	\$ 0.76

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



**BIG LOTS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
(In thousands)

	2017	2016	2015
Net income	\$ 189,832	\$ 152,828	\$ 142,873
Other comprehensive income (loss):			
Amortization of pension, net of tax benefit of \$0, \$(886), and \$(702), respectively	—	1,355	1,119
Valuation adjustment of pension, net of tax (benefit) expense of \$0, \$(9,556), and \$1,530, respectively	—	14,622	(2,440)
Total other comprehensive income (loss)	—	15,977	(1,321)
Comprehensive income	\$ 189,832	\$ 168,805	\$ 141,552

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

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

	February 3, 2018	January 28, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 51,176	\$ 51,164
Inventories	872,790	858,689
Other current assets	98,007	84,526
<b>Total current assets</b>	<b>1,021,973</b>	<b>994,379</b>
Property and equipment - net	565,977	525,851
Deferred income taxes	13,986	46,469
Other assets	49,790	41,008
<b>Total assets</b>	<b>\$ 1,651,726</b>	<b>\$ 1,607,707</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 351,226	\$ 400,495
Property, payroll, and other taxes	80,863	81,306
Accrued operating expenses	72,013	71,251
Insurance reserves	38,517	40,269
Accrued salaries and wages	39,321	54,009
Income taxes payable	7,668	31,265
<b>Total current liabilities</b>	<b>589,608</b>	<b>678,595</b>
Long-term obligations	199,800	106,400
Deferred rent	58,246	56,035
Insurance reserves	55,015	56,593
Unrecognized tax benefits	14,929	15,853
Other liabilities	64,541	43,601
Shareholders' equity:		
Preferred shares - authorized 2,000 shares; \$0.01 par value; none issued	—	—
Common shares - authorized 298,000 shares; \$0.01 par value; issued 117,495 shares; outstanding 41,925 shares and 44,259 shares, respectively	1,175	1,175
Treasury shares - 75,570 shares and 73,236 shares, respectively, at cost	(2,422,396)	(2,291,379)
Additional paid-in capital	622,550	617,516
Retained earnings	2,468,258	2,323,318
Accumulated other comprehensive loss	—	—
<b>Total shareholders' equity</b>	<b>669,587</b>	<b>650,630</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,651,726</b>	<b>\$ 1,607,707</b>

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

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

	Common		Treasury		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance - January 31, 2015	52,912	\$ 1,175	64,583	\$(1,878,523)	\$ 574,454	\$ 2,107,100	\$ (14,656)	\$ 789,550
Comprehensive income	—	—	—	—	—	142,873	(1,321)	141,552
Dividends declared (\$0.76 per share)	—	—	—	—	—	(39,734)	—	(39,734)
Purchases of common shares	(4,403)	—	4,403	(201,867)	—	—	—	(201,867)
Exercise of stock options	450	—	(450)	13,149	3,134	—	—	16,283
Restricted shares vested	128	—	(128)	3,747	(3,747)	—	—	—
Performance shares vested	—	—	—	—	—	—	—	—
Tax benefit from share-based awards	—	—	—	—	687	—	—	687
Share activity related to deferred compensation plan	1	—	(1)	19	4	—	—	23
Other	13	—	(13)	384	113	—	—	497
Share-based employee compensation expense	—	—	—	—	13,479	—	—	13,479
Balance - January 30, 2016	49,101	1,175	68,394	(2,063,091)	588,124	2,210,239	(15,977)	720,470
Comprehensive income	—	—	—	—	—	152,828	15,977	168,805
Dividends declared (\$0.84 per share)	—	—	—	—	—	(39,749)	—	(39,749)
Purchases of common shares	(5,685)	—	5,685	(254,304)	—	—	—	(254,304)
Exercise of stock options	573	—	(573)	17,834	3,822	—	—	21,656
Restricted shares vested	252	—	(252)	7,649	(7,649)	—	—	—
Performance shares vested	13	—	(13)	394	(394)	—	—	—
Tax benefit from share-based awards	—	—	—	—	510	—	—	510
Share activity related to deferred compensation plan	—	—	—	3	6	—	—	9
Other	5	—	(5)	136	68	—	—	204
Share-based employee compensation expense	—	—	—	—	33,029	—	—	33,029
Balance - January 28, 2017	44,259	1,175	73,236	(2,291,379)	617,516	2,323,318	—	650,630
Comprehensive income	—	—	—	—	—	189,832	—	189,832
Dividends declared (\$1.00 per share)	—	—	—	—	—	(44,746)	—	(44,746)
Adjustment for ASU 2016-09	—	—	—	—	241	(146)	—	95
Purchases of common shares	(3,437)	—	3,437	(165,757)	—	—	—	(165,757)
Exercise of stock options	304	—	(304)	9,659	2,053	—	—	11,712
Restricted shares vested	368	—	(368)	11,562	(11,562)	—	—	—
Performance shares vested	431	—	(431)	13,523	(13,523)	—	—	—
Share activity related to deferred compensation plan	—	—	—	(4)	—	—	—	(4)
Other	—	—	—	—	—	—	—	—
Share-based employee compensation expense	—	—	—	—	27,825	—	—	27,825
Balance - February 3, 2018	41,925	\$ 1,175	75,570	\$(2,422,396)	\$ 622,550	\$ 2,468,258	\$ —	\$ 669,587

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

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

	2017	2016	2015
Operating activities:			
Net income	\$ 189,832	\$ 152,828	\$ 142,873
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	106,004	108,315	108,054
Deferred income taxes	32,578	(9,171)	(617)
Non-cash share-based compensation expense	27,825	33,029	13,479
Excess tax benefit from share-based awards	—	(1,111)	(1,330)
Non-cash impairment charge	—	100	386
Loss (gain) on disposition of property and equipment	483	(2,899)	1,464
Unrealized (gain) loss on fuel derivatives	(1,398)	(3,657)	4,665
Pension expense, net of contributions	—	6,644	(5,312)
Change in assets and liabilities, excluding effects of foreign currency adjustments:			
Inventories	(14,100)	(8,707)	1,687
Accounts payable	(49,269)	18,217	23,345
Current income taxes	(26,368)	12,391	29,305
Other current assets	(12,144)	34	(12,189)
Other current liabilities	(15,342)	(4,789)	22,282
Other assets	(9,335)	(3,976)	3,806
Other liabilities	21,602	14,677	10,454
Net cash provided by operating activities	250,368	311,925	342,352
Investing activities:			
Capital expenditures	(142,745)	(89,782)	(125,989)
Cash proceeds from sale of property and equipment	1,854	5,061	12,773
Assets acquired under synthetic lease	(15,606)	—	—
Other	(11)	20	23
Net cash used in investing activities	(156,508)	(84,701)	(113,193)
Financing activities:			
Net proceeds from borrowings under bank credit facility	93,400	44,100	200
Payment of capital lease obligations	(4,134)	(4,514)	(4,433)
Dividends paid	(44,671)	(38,466)	(38,530)
Proceeds from the exercise of stock options	11,712	21,656	16,283
Excess tax benefit from share-based awards	—	1,111	1,330
Payment for treasury shares acquired	(165,757)	(254,304)	(201,867)
Proceeds from synthetic lease	15,606	—	—
Deferred bank credit facility fees paid	—	—	(779)
Other	(4)	213	520
Net cash used in financing activities	(93,848)	(230,204)	(227,276)
Increase (decrease) in cash and cash equivalents	12	(2,980)	1,883
Cash and cash equivalents:			
Beginning of year	51,164	54,144	52,261
End of year	\$ 51,176	\$ 51,164	\$ 54,144

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

## **NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Description of Business**

We are a community retailer in the United States (“U.S.”). At February 3, 2018, we operated 1,416 stores in 47 states and an e-commerce platform. We are dedicated to friendly service, trustworthy value, and affordable solutions in every season and category – furniture, food, décor, and more. We exist to serve everyone like family, providing a better shopping experience for our customers by providing great savings on value-priced merchandise, which includes tasteful and “trend-right” import merchandise, consistent and replenishable “never out” offerings, and brand-name closeouts that are meaningful, combined with the quality and ease of the shopping experience.

### **Basis of Presentation**

The consolidated financial statements include Big Lots, Inc. and all of its subsidiaries, have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and include all of our accounts. We consolidate all majority-owned and controlled subsidiaries. All intercompany accounts and transactions have been eliminated.

### **Management Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. The use of estimates, judgments, and assumptions creates a level of uncertainty with respect to reported or disclosed amounts in our consolidated financial statements and accompanying notes. On an ongoing basis, management evaluates its estimates, judgments, and assumptions, including those that management considers critical to the accurate presentation and disclosure of our consolidated financial statements and accompanying notes. Management bases its estimates, judgments, and assumptions on historical experience, current trends, and various other factors that it believes are reasonable under the circumstances. Because of the inherent uncertainty in using estimates, judgments, and assumptions, actual results may differ from these estimates.

### **Fiscal Periods**

Our fiscal year ends on the Saturday nearest to January 31, which results in fiscal years consisting of 52 or 53 weeks. Unless otherwise stated, references to years in this report relate to fiscal years rather than calendar years. Fiscal year 2017 (“2017”) was comprised of the 53 weeks that began on January 29, 2017 and ended on February 3, 2018. Fiscal year 2016 (“2016”) was comprised of the 52 weeks that began on January 31, 2016 and ended on January 28, 2017. Fiscal year 2015 (“2015”) was comprised of the 52 weeks that began on February 1, 2015 and ended on January 30, 2016.

### **Segment Reporting**

We manage our business based on one segment, discount retailing. Our entire operation is located in the U.S.

### **Cash and Cash Equivalents**

Cash and cash equivalents primarily consist of amounts on deposit with financial institutions, outstanding checks, credit and debit card receivables, and highly liquid investments, including money market funds, which are unrestricted to withdrawal or use and which have an original maturity of three months or less. We review cash and cash equivalent balances on a bank by bank basis in order to identify book overdrafts. Book overdrafts occur when the amount of outstanding checks exceed the cash deposited at a given bank. We reclassify book overdrafts, if any, to accounts payable on our consolidated balance sheets. Amounts due from banks for credit and debit card transactions are typically settled in less than five days, and at February 3, 2018 and January 28, 2017, totaled \$27.0 million and \$26.9 million, respectively.

### **Investments**

Investment securities are classified as available-for-sale, held-to-maturity, or trading at the date of purchase. Investments are recorded at fair value as either current assets or non-current assets based on the stated maturity or our plans to either hold or sell the investment. Unrealized holding gains and losses on trading securities are recognized in earnings. Unrealized holding gains and losses on available-for-sale securities are recognized in other comprehensive income, until realized. We did not own any held-to-maturity or available-for-sale securities as of February 3, 2018 and January 28, 2017.

## **Merchandise Inventories**

Merchandise inventories are valued at the lower of cost or market using the average cost retail inventory method. Cost includes any applicable inbound shipping and handling costs associated with the receipt of merchandise into our distribution centers (see the discussion below under the caption “Selling and Administrative Expenses” for additional information regarding outbound shipping and handling costs to our stores). Market is determined based on the estimated net realizable value, which generally is the merchandise selling price. Under the average cost retail inventory method, inventory is segregated into classes of merchandise having similar characteristics at its current retail selling value. Current retail selling values are converted to a cost basis by applying an average cost factor to each specific merchandise class’s retail selling value. Cost factors represent the average cost-to-retail ratio computed using beginning inventory and all fiscal year-to-date purchase activity specific to each merchandise class.

Under the average cost retail inventory method, permanent sales price markdowns result in cost reductions in inventory. Our permanent sales price markdowns are typically related to end of season clearance events and are recorded as a charge to cost of sales in the period of management’s decision to initiate sales price reductions with the intent not to return the price to regular retail. Promotional markdowns are recorded as a charge to net sales in the period the merchandise is sold. Promotional markdowns are typically related to specific marketing efforts with respect to products maintained continuously in our stores or products that are only available in limited quantities but represent substantial value to our customers. Promotional markdowns are principally used to drive higher sales volume during a defined promotional period.

We record a reduction to inventories and charge to cost of sales for a shrinkage inventory allowance. The shrinkage allowance is calculated as a percentage of sales for the period from the last physical inventory date to the end of the reporting period. Such estimates are based on a combination of our historical experience and current year physical inventory results.

We record a reduction to inventories and charge to cost of sales for any excess or obsolete inventory. The excess or obsolete inventory is estimated based on a review of our aged inventory and takes into account any items that have already received a cost reduction as a result of the permanent markdown process discussed above. We estimate the reduction for excess or obsolete inventory based on historical sales trends, age and quantity of product on hand, and anticipated future sales.

## **Payments Received from Vendors**

Payments received from vendors relate primarily to rebates and reimbursement for markdowns and are recognized in our consolidated statements of operations as a reduction to cost of inventory purchases in the period that the rebate or reimbursement is earned or realized and, consequently, result in a reduction in cost of sales when the related inventory is sold.

## **Store Supplies**

When opening a new store, a portion of the initial shipment of supplies (which primarily includes display materials, signage, security-related items, and miscellaneous store supplies) is capitalized at the store opening date. These capitalized supplies represent more durable types of items for which we expect to receive future economic benefit. Subsequent replenishments of capitalized store supplies are expensed. The consumable/non-durable type items for which the future economic benefit is less measurable are expensed upon shipment to the store. Capitalized store supplies are adjusted periodically for changes in estimated quantities or costs and are included in other current assets in our consolidated balance sheets.

## **Property and Equipment - Net**

Depreciation and amortization expense of property and equipment are recorded on a straight-line basis using estimated service lives. The estimated service lives of our depreciable property and equipment by major asset category were as follows:

Land improvements	15 years
Buildings	40 years
Leasehold improvements	5 years
Store fixtures and equipment	5 - 7 years
Distribution and transportation fixtures and equipment	5 - 15 years
Office and computer equipment	5 years
Computer software costs	5 - 8 years
Company vehicles	3 years

Leasehold improvements are amortized on a straight-line basis using the shorter of their estimated service lives or the lease term. Because many initial lease terms range from five to ten years and the majority of our lease options have a term of five years, we estimate the useful life of leasehold improvements at five years. This amortization period is consistent with the amortization period for any lease incentives that we would typically receive when initially entering into a new lease that are recognized as deferred rent and amortized over the initial lease term.

Assets acquired under noncancellable leases, which meet the criteria of a capital lease, are capitalized in property and equipment - net and amortized over the estimated service life of the asset or the applicable lease term, whichever is shorter.

Depreciation estimates are revised prospectively to reflect the remaining depreciation or amortization of the asset over the shortened estimated service life when a decision is made to dispose of property and equipment prior to the end of its previously estimated service life. The cost of assets sold or retired and the related accumulated depreciation are removed from the accounts with any resulting gain or loss included in selling and administrative expenses. Major repairs that extend service lives are capitalized. Maintenance and repairs are charged to expense as incurred. Capitalized interest was not significant in any period presented.

### **Long-Lived Assets**

Our long-lived assets primarily consist of property and equipment - net. In order to determine if impairment indicators are present for store property and equipment, we review historical operating results at the store level on an annual basis, or when other impairment indicators are present. Generally, all other property and equipment is reviewed for impairment at the enterprise level. If the net book value of a store's long-lived assets is not recoverable by the expected undiscounted future cash flows of the store, we estimate the fair value of the store's assets and recognize an impairment charge for the excess net book value of the store's long-lived assets over their fair value. Our assumptions related to estimates of undiscounted future cash flows are based on historical results of cash flows adjusted for management projections for future periods. We estimate the fair value of our long-lived assets using expected cash flows, including salvage value, which is based on readily available market information for similar assets.

### **Closed Store Accounting**

We recognize an obligation for the fair value of lease termination costs when we cease using the leased property in our operations. In measuring fair value of these lease termination obligations, we consider the remaining minimum lease payments, estimated sublease rentals that could be reasonably obtained, and other potentially mitigating factors. We discount the estimated obligation using the applicable credit adjusted interest rate, which results in accretion expense in periods subsequent to the period of initial measurement. We monitor the estimated obligation for lease termination liabilities in subsequent periods and revise our estimated liabilities, if necessary. Severance and benefits associated with terminating employees from employment are recognized ratably from the communication date through the estimated future service period, unless the estimated future service period is less than 60 days, in which case we recognize the impact at the communication date. Generally all other store closing costs are recognized when incurred.

### **Income Taxes**

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement basis and tax basis of assets and liabilities using enacted law and tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We assess the adequacy and need for a valuation allowance for deferred tax assets. In making such assessment, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. We have established a valuation allowance to reduce our deferred tax assets to the balance that is more likely than not to be realized.

We recognize interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statements of operations. Accrued interest and penalties are included within the related tax liability line in the accompanying consolidated balance sheets.

The effective income tax rate in any period may be materially impacted by the overall level of income (loss) before income taxes, the jurisdictional mix and magnitude of income (loss), changes in the income tax laws (which may be retroactive to the beginning of the fiscal year), subsequent recognition, de-recognition and/or measurement of an uncertain tax benefit, changes in a deferred tax valuation allowance, and adjustments of a deferred tax asset or liability for enacted changes in tax laws or rates.

### **Pension**

As of January 28, 2017, our pension plans were frozen, terminated and fully distributed. Accordingly, we no longer evaluate pension assumptions or calculate expenses and obligations related to our pension plans, as further discussed in note 8. In prior years, we evaluated pension assumptions and used actuarial valuations to calculate the estimated expenses and obligations related to our pension plans. We reviewed external data and historical trends to help determine the discount rate and expected long-term rate of return. Our objective in selecting a discount rate was to identify the best estimate of the rate at which the benefit obligations would be settled on the measurement date. In making this estimate, we reviewed rates of return on high-quality, fixed-income investments available at the measurement date and expected to be available during the period to maturity of the benefits. This process included a review of the bonds available on the measurement date with a quality rating of Aa or better. The expected long-term rate of return on assets was derived from detailed periodic studies, which included a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risks (standard deviations), and correlations of returns among the asset classes that comprised the plan's asset mix. While the studies gave appropriate consideration to recent plan performance and historical returns, the assumption for the expected long-term rate of return was primarily based on our expectation of a long-term, prospective rate of return.

### **Insurance and Insurance-Related Reserves**

We are self-insured for certain losses relating to property, general liability, workers' compensation, and employee medical, dental, and prescription drug benefit claims, a portion of which is paid by employees. We purchase stop-loss coverage to limit significant exposure in these areas. Accrued insurance-related liabilities and related expenses are based on actual claims filed and estimates of claims incurred but not reported and are reliably determinable. The accruals are determined by applying actuarially-based calculations. General liability and workers' compensation liabilities are recorded at our estimate of their net present value, using a 3.5% discount rate, while other liabilities for insurance-related reserves are not discounted.

### **Fair Value of Financial Instruments**

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy, as defined below, gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

- Level 1, defined as observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2, defined as observable inputs other than Level 1 inputs. These include quoted prices for similar assets or liabilities in an active market, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The carrying value of cash equivalents, accounts receivable, accounts payable, and accrued expenses approximates fair value because of the relatively short maturity of these items.

### **Commitments and Contingencies**

We are subject to various claims and contingencies including legal actions and other claims arising out of the normal course of business. In connection with such claims and contingencies, we estimate the likelihood and amount of any potential obligation, where it is possible to do so, using management's judgment. Management uses various internal and external specialists to assist in the estimating process. We accrue, if material, a liability if the likelihood of a loss is probable and the amount is estimable. If the likelihood of a loss is only reasonably possible (as opposed to probable), or if it is probable but an estimate is not determinable, disclosure of a material claim or contingency is made in the notes to our consolidated financial statements and no accrual is made.



## **Revenue Recognition**

We recognize sales at the time the customer takes possession of the merchandise. Sales are recorded net of discounts and estimated returns and exclude any sales tax. The reserve for merchandise returns is estimated based on our prior return experience.

We sell gift cards in our stores and issue merchandise credits, typically as a result of customer returns, on stored value cards. We do not charge administrative fees on unused gift card or merchandise credit balances and our gift cards and merchandise credits do not expire. We recognize sales revenue related to gift cards and merchandise credits when (1) the gift card or merchandise credit is redeemed in a sales transaction by the customer or (2) breakage occurs. We recognize gift card and merchandise credit breakage when we estimate that the likelihood of the card or credit being redeemed by the customer is remote and we determine that we do not have a legal obligation to remit the value of unredeemed cards or credits to the relevant regulatory authority. We estimate breakage based upon historical redemption patterns, and record breakage when a gift card or merchandise credit has aged at least four years beyond the end of their original issuance month. The liability for the unredeemed cash value of gift cards and merchandise credits is recorded in accrued operating expenses.

We offer price hold contracts on merchandise. Revenue for price hold contracts is recognized when the customer makes the final payment and takes possession of the merchandise. Amounts paid by customers under price hold contracts are recorded in accrued operating expenses until a sale is consummated.

## **Cost of Sales**

Cost of sales includes the cost of merchandise, net of cash discounts and rebates, markdowns, and inventory shrinkage. Cost of merchandise includes related inbound freight to our distribution centers, duties, and commissions. We classify warehousing and outbound distribution and transportation costs as selling and administrative expenses. Due to this classification, our gross margin rates may not be comparable to those of other retailers that include warehousing and outbound distribution and transportation costs in cost of sales.

## **Selling and Administrative Expenses**

Selling and administrative expenses include store expenses (such as payroll and occupancy costs) and costs related to warehousing, distribution, outbound transportation to our stores, advertising, purchasing, insurance, non-income taxes, accepting credit/debit cards, and overhead. Selling and administrative expense rates may not be comparable to those of other retailers that include warehousing, distribution, and outbound transportation costs in cost of sales. Distribution and outbound transportation costs included in selling and administrative expenses were \$161.5 million, \$151.9 million, and \$159.4 million for 2017, 2016, and 2015, respectively.

## **Rent Expense**

Rent expense is recognized over the term of the lease and is included in selling and administrative expenses. We recognize minimum rent starting when possession of the property is taken from the landlord, which normally includes a construction or set-up period prior to store opening. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. We also receive tenant allowances, which are recorded in deferred incentive rent and are amortized as a reduction to rent expense over the term of the lease.

Our leases generally obligate us for our applicable portion of real estate taxes, CAM, and property insurance that has been incurred by the landlord with respect to the leased property. We maintain accruals for our estimated applicable portion of real estate taxes, CAM, and property insurance incurred but not settled at each reporting date. We estimate these accruals based on historical payments made and take into account any known trends. Inherent in these estimates is the risk that actual costs incurred by landlords and the resulting payments by us may be higher or lower than the amounts we have recorded on our books.

Certain of our leases provide for contingent rents that are not measurable at the lease inception date. Contingent rent includes rent based on a percentage of sales that are in excess of a predetermined level. Contingent rent is excluded from minimum rent but is included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

**Advertising Expense**

Advertising costs, which are expensed as incurred, consist primarily of television and print advertising, internet and social media marketing and advertising, e-mail, and in-store point-of-purchase presentations. Advertising expenses are included in selling and administrative expenses. Advertising expenses were \$92.0 million, \$92.3 million, and \$91.5 million for 2017, 2016, and 2015, respectively.

**Store Pre-opening Costs**

Pre-opening costs incurred during the construction periods for new store openings are expensed as incurred and included in our selling and administrative expenses.

**Share-Based Compensation**

Share-based compensation expense is recognized in selling and administrative expense in our consolidated statements of operations for all awards that we expect to vest.

***Non-vested Restricted Stock Awards***

Compensation expense for our performance-based non-vested restricted stock awards is recorded based on fair value of the award on the grant date and the estimated achievement date of the performance criteria. An estimated target achievement date is determined at the time of the award grant based on historical and forecasted performance of similar measures. We monitor the projected achievement of the performance targets at each reporting period and make prospective adjustments to the estimated vesting period when our internal models indicate that the estimated achievement date differs from the date being used to amortize expense.

***Non-vested Restricted Stock Units***

We expense our non-vested restricted stock units with graded vesting as a single award with an average estimated life over the entire term of the award. The expense for the non-vested restricted stock units is recorded on a straight-line basis over the vesting period.

***Performance Share Units***

Compensation expense for performance share units (“PSUs”) is recorded based on fair value of the award on the grant date and the estimated achievement of financial performance objectives. From an accounting perspective, the grant date is established once all financial performance targets have been set. We monitor the estimated achievement of the financial performance objectives at each reporting period and will potentially adjust the estimated expense on a cumulative basis. The expense for the PSUs is recorded on a straight-line basis from the grant date through the vesting date.

***CEO Performance Share Units***

For the PSUs granted to our CEO during 2013, compensation expense was recorded based on fair value of the award on the grant date and the estimated achievement date of the performance criteria. An estimated target achievement date for each tranche of the award was determined at the time of the award grant based on a Monte Carlo simulation.

***Stock Options***

We valued and expensed stock options with graded vesting as a single award with an average estimated life over the entire term of the award. The expense for options with graded vesting was recorded on a straight-line basis over the vesting period. Historically, we estimated the fair value of stock options using a binomial model. The binomial model takes into account variables such as volatility, dividend yield rate, risk-free rate, contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of retirement of the option holder in computing the value of the option. Expected volatility was based on historical implied volatilities from traded options on our common shares. The dividend yield on our common shares was assumed to be zero, since we had not paid dividends at the time of our most recent stock option grants in 2013, nor did we have intentions of doing so at that time. The risk-free rate was based on U.S. Treasury security yields at the time of the grant. The expected life was determined from the binomial model, which incorporates exercise and post-vesting forfeiture assumptions based on analysis of historical data.

**Earnings per Share**

Basic earnings per share is based on the weighted-average number of shares outstanding during each period. Diluted earnings per share is based on the weighted-average number of shares outstanding during each period and the additional dilutive effect of stock options, restricted stock awards, restricted stock units, and PSUs, calculated using the treasury stock method.

## Derivative Instruments

We use derivative instruments to mitigate the risk of market fluctuations in diesel fuel prices. We do not enter into derivative instruments for speculative purposes. Our derivative instruments may consist of collar or swap contracts. Our current derivative instruments do not meet the requirements for cash flow hedge accounting. Instead, our derivative instruments are marked-to-market to determine their fair value and any gains or losses are recognized currently in other income (expense) on our consolidated statements of operations.

## Other Comprehensive Income

Our other comprehensive income included the impact of the amortization of our pension actuarial loss, net of tax, and the revaluation of our pension actuarial loss, net of tax.

## Supplemental Cash Flow Disclosures

The following table provides supplemental cash flow information for 2017, 2016, and 2015:

<i>(In thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest, including capital leases	\$ 5,991	\$ 4,486	\$ 3,204
Cash paid for income taxes, excluding impact of refunds	\$ 99,693	\$ 103,323	\$ 56,158
Gross proceeds from borrowings under the bank credit facility	\$ 1,656,100	\$ 1,673,700	\$ 1,588,200
Gross repayments of borrowings under the bank credit facility	\$ 1,562,700	\$ 1,629,600	\$ 1,588,000
Non-cash activity:			
Assets acquired under capital leases	\$ 238	\$ 286	\$ 10,180
Accrued property and equipment	\$ 11,236	\$ 9,295	\$ 9,808

## Reclassifications

### *Merchandise Categories*

We periodically assess, and make minor adjustments to, our product hierarchy, which can impact the roll-up of our merchandise categories. Our financial reporting process utilizes the most current product hierarchy in reporting net sales by merchandise category for all periods presented. Therefore, there may be minor reclassifications of net sales by merchandise category compared to previously reported amounts.

## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. The pronouncement was originally set to be effective for annual and interim reporting periods beginning after December 15, 2016. In July 2015, the FASB approved a one-year deferral of the effective date from December 15, 2016 to December 15, 2017. This ASU permits the use of either the retrospective or cumulative effect transition method. We have evaluated the impact this guidance will have on our consolidated financial statements and our adoption method. Our adoption of this standard will not significantly change the timing of the recognition of our revenue or costs although our principal versus agent presentation of an immaterial portion of our vendor relationships will be impacted. We will adopt the new standard effective February 4, 2018, using the full retrospective method.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The update requires a lessee to recognize, on the balance sheet, a liability to make lease payments and a right-of-use asset representing a right to use the underlying asset for the lease term. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating both the impact that this standard will have on our consolidated financial statements and which practical expedients to employ during adoption. We will not early adopt this standard.

## Recently Adopted Accounting Standards

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This update makes several modifications to the accounting for employee share-based payment transactions, including the requirement to recognize the income tax deduction excess or deficiency attributable to awards that vest or settle as income tax expense in the reporting period they vest or settle. Additionally, this update clarifies the presentation of certain components of share-based awards in the statement of cash flows. The ASU was effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods.

We selected a modified retrospective method for the recognition of the cumulative income tax effects and a prospective method for cash flow presentations. For 2017, we recorded a \$4.5 million benefit to income tax expense attributable to excess tax benefits. For 2016 and 2015, \$0.5 million and \$0.7 million, respectively, of excess tax benefits were recorded to additional paid-in capital that would have been recorded as a reduction to the provision for income taxes if this new guidance had been adopted on a full retrospective basis. Additionally, we recorded an insignificant adjustment to retained earnings to change our accounting method from an estimated forfeiture rate approach to actual forfeiture approach, which accounts for forfeitures as they occur.

## Subsequent Events

We have evaluated events and transactions subsequent to the balance sheet date. Based on this evaluation, we are not aware of any events or transactions (other than those disclosed in notes 10, if applicable, and 16) that occurred subsequent to the balance sheet date but prior to filing that would require recognition or disclosure in our consolidated financial statements.

## NOTE 2 – PROPERTY AND EQUIPMENT - NET

Property and equipment - net consist of:

<i>(In thousands)</i>	February 3, 2018	January 28, 2017
Land and land improvements	\$ 60,416	\$ 50,906
Buildings and leasehold improvements	881,077	853,324
Fixtures and equipment	772,711	743,212
Computer software costs	172,539	165,209
Construction-in-progress	35,084	18,653
Property and equipment - cost	1,921,827	1,831,304
Less accumulated depreciation and amortization	1,355,850	1,305,453
Property and equipment - net	\$ 565,977	\$ 525,851

Property and equipment - cost includes \$28.6 million and \$31.0 million at February 3, 2018 and January 28, 2017, respectively, to recognize assets from capital leases. Accumulated depreciation and amortization includes \$13.2 million and \$11.1 million at February 3, 2018 and January 28, 2017, respectively, related to capital leases. Additionally, we had \$15.6 million in assets from a synthetic lease for our distribution center in Apple Valley, California at February 3, 2018. We did not have any synthetic leases in 2016.

During 2017, 2016, and 2015, respectively, we invested \$142.7 million, \$89.8 million, and \$126.0 million of cash in capital expenditures and we recorded \$117.1 million, \$120.5 million, and \$122.9 million of depreciation expense.

We incurred \$0.0 million, \$0.1 million, and \$0.4 million in asset impairment charges in 2017, 2016, and 2015, respectively. During 2017, we did not impair the value of long-lived assets at any stores as a result of our annual store impairment review. In 2016, we wrote down the value of long-lived assets at one store identified as part of our annual store impairment review. In 2015, we wrote down the value of long-lived assets at two stores identified as part of our annual store impairment review.

Asset impairment charges are included in selling and administrative expenses in our accompanying consolidated statements of operations. We perform annual impairment reviews of our long-lived assets at the store level. When we perform the annual impairment reviews, we first determine which stores had impairment indicators present. We generally use actual historical cash flows to determine if stores had negative cash flows within the past two years. For each store with negative cash flows, we estimate future cash flows based on operating performance estimates specific to each store's operations that are based on assumptions currently being used to develop our company level operating plans. If the net book value of a store's long-lived assets is not recoverable by the expected future cash flows of the store, we estimate the fair value of the store's assets and recognize an impairment charge for the excess net book value of the store's long-lived assets over their fair value.

### **NOTE 3 – BANK CREDIT FACILITY**

On July 22, 2011, we entered into a \$700 million five-year unsecured credit facility, which was first amended on May 30, 2013. On May 28, 2015, we entered into a second amendment of the credit facility that, among other things, extended its term to May 30, 2020 (as amended, the "2011 Credit Agreement"). In connection with our original entry into the 2011 Credit Agreement, we paid bank fees and other expenses in the aggregate amount of \$3.0 million, which are being amortized over the term of the agreement. In connection with the 2015 amendment of the 2011 Credit Agreement, we paid additional bank fees and other expenses in the aggregate amount of \$0.8 million, which are being amortized over the term of the amended agreement.

Borrowings under the 2011 Credit Agreement are available for general corporate purposes and working capital. The 2011 Credit Agreement includes a \$30 million swing loan sublimit and a \$150 million letter of credit sublimit. The interest rates, pricing and fees under the 2011 Credit Agreement fluctuate based on our debt rating. The 2011 Credit Agreement allows us to select our interest rate for each borrowing from multiple interest rate options. The interest rate options are generally derived from the prime rate or LIBOR. We may prepay revolving loans made under the 2011 Credit Agreement. The 2011 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 any of the covenants could result in a default under the 2011 Credit Agreement that would permit the lenders to restrict our ability to further access the 2011 Credit Agreement for loans and letters of credit and require the immediate repayment of any outstanding loans under the 2011 Credit Agreement. At February 3, 2018, we had \$199.8 million of borrowings outstanding under the 2011 Credit Agreement and \$5.0 million was committed to outstanding letters of credit, leaving \$495.2 million available under the 2011 Credit Agreement.

### **NOTE 4 – FAIR VALUE MEASUREMENTS**

In connection with our nonqualified deferred compensation plan, we had mutual fund investments of \$33.0 million and \$24.1 million at February 3, 2018 and January 28, 2017, respectively, which were recorded in other assets. These investments were classified as trading securities and were recorded at their fair value. The fair values of mutual fund investments were Level 1 valuations under the fair value hierarchy because each fund's quoted market value per share was available in an active market.

The fair values of our long-term obligations under our bank credit facility are estimated based on the quoted market prices for the same or similar issues and the current interest rates offered for similar instruments. These fair value measurements are classified as Level 2 within the fair value hierarchy. Given the variable rate features and relatively short maturity of the instruments underlying our long-term obligations, the carrying value of these instruments approximates the fair value.

## NOTE 5 – LEASES

Leased property consisted primarily of 1,363 of our retail stores, our new corporate office, our new California distribution center, and certain transportation, information technology and other office equipment. In 2016, we entered into a lease for our new corporate office and expect to move into the new office in the first half of 2018. In late 2017, we entered into a synthetic lease arrangement for a new distribution center in California. We are the construction agent for the new distribution center in California and we expect the lease term to commence and to begin operations in 2019. Many of the store leases obligate us to pay for our applicable portion of real estate taxes, CAM, and property insurance. Certain store leases provide for contingent rents, have rent escalations, and have tenant allowances or other lease incentives. Many of our leases contain provisions for options to renew or extend the original term for additional periods.

Total rent expense, including real estate taxes, CAM, and property insurance for operating leases consisted of the following:

<i>(In thousands)</i>	2017	2016	2015
Minimum rents	\$ 330,229	\$ 321,248	\$ 314,605
Contingent rents	469	607	637
Total rent expense	\$ 330,698	\$ 321,855	\$ 315,242

Future minimum rental commitments for leases, excluding closed store leases, real estate taxes, CAM, and property insurance, at February 3, 2018, were as follows:

<b>Fiscal Year</b>	<i>(In thousands)</i>
2018	\$ 268,500
2019	228,709
2020	185,332
2021	139,050
2022	89,990
Thereafter	207,254
Total leases	\$ 1,118,835

We have obligations for capital leases primarily for store asset protection equipment and office equipment, included in accrued operating expenses and other liabilities on our consolidated balance sheet. Scheduled payments for all capital leases at February 3, 2018, were as follows:

<b>Fiscal Year</b>	<i>(In thousands)</i>
2018	\$ 4,760
2019	4,406
2020	4,406
2021	3,352
2022	508
Thereafter	87
Total lease payments	\$ 17,519
Less amount to discount to present value	(1,539)
Capital lease obligation per balance sheet	\$ 15,980

## NOTE 6 – SHAREHOLDERS' EQUITY

### Earnings per Share

There were no adjustments required to be made to weighted-average common shares outstanding for purposes of computing basic and diluted earnings per share and there were no securities outstanding in any year presented, which were excluded from the computation of earnings per share other than antidilutive stock options, restricted stock awards, restricted stock units, and PSUs. Stock options outstanding that were excluded from the diluted share calculation because their impact was antidilutive at the end of 2017, 2016, and 2015 were as follows:

<i>(In millions)</i>	2017	2016	2015
Antidilutive stock options excluded from dilutive share calculation	—	—	0.1

Antidilutive options are excluded from the calculation because they decrease the number of diluted shares outstanding under the treasury stock method. Antidilutive stock options are generally outstanding options where the exercise price per share is greater than the weighted-average market price per share for our common shares for each period. The restricted stock awards, restricted stock units, and PSUs that were antidilutive, as determined under the treasury stock method, were immaterial for all years presented.

A reconciliation of the number of weighted-average common shares outstanding used in the basic and diluted earnings per share computations is as follows:

<i>(In thousands)</i>	2017	2016	2015
Weighted-average common shares outstanding:			
Basic	42,818	45,316	50,517
Dilutive effect of share-based awards	482	658	447
Diluted	43,300	45,974	50,964

### Share Repurchase Programs

On February 28, 2017, our Board of Directors authorized a share repurchase program providing for the repurchase of up to \$150 million of our common shares (“2017 Repurchase Program”). The 2017 Repurchase Program was exhausted during the third quarter of 2017. During 2017, we acquired approximately 3.1 million of our outstanding common shares for \$150 million under the 2017 Repurchase Program.

Common shares acquired through repurchase programs are held in treasury at cost and are available to meet obligations under equity compensation plans and for general corporate purposes.

### Dividends

The Company declared and paid cash dividends per common share during the periods presented as follows:

	Dividends Per Share	Amount Declared	Amount Paid
<b>2016:</b>		<i>(In thousands)</i>	<i>(In thousands)</i>
First quarter	\$ 0.21	\$ 10,616	\$ 10,597
Second quarter	0.21	9,674	9,282
Third quarter	0.21	9,699	9,290
Fourth quarter	0.21	9,760	9,297
<b>Total</b>	<b>\$ 0.84</b>	<b>\$ 39,749</b>	<b>\$ 38,466</b>
<b>2017:</b>		<i>(In thousands)</i>	<i>(In thousands)</i>
First quarter	\$ 0.25	\$ 11,547	\$ 12,683
Second quarter	0.25	11,289	10,872
Third quarter	0.25	11,007	10,638
Fourth quarter	0.25	10,903	10,478
<b>Total</b>	<b>\$ 1.00</b>	<b>\$ 44,746</b>	<b>\$ 44,671</b>

The amount of dividends declared may vary from the amount of dividends paid in a period based on certain instruments with restrictions on payment, including restricted stock awards, restricted stock units, and PSUs. The payment of future dividends will be at the discretion of our Board of Directors and will depend on our financial condition, results of operations, capital requirements, compliance with applicable laws and agreements and any other factors deemed relevant by our Board of Directors.

## NOTE 7 – SHARE-BASED PLANS

Our shareholders approved the Big Lots 2017 Long-Term Incentive Plan (“2017 LTIP”) in May 2017. The 2017 LTIP authorizes the issuance of incentive and nonqualified stock options, restricted stock, restricted stock units, deferred stock awards, PSUs, stock appreciation rights, cash-based awards, and other share-based awards. We have issued restricted stock units and PSUs under the 2017 LTIP. The number of common shares available for issuance under the 2017 LTIP consists of an initial allocation of 5,500,000 common shares plus any common shares subject to the 1,743,116 outstanding awards as of January 28, 2017 under the Big Lots 2012 Long-Term Incentive Plan (“2012 LTIP”) that, on or after January 28, 2017, cease for any reason to be subject to such awards (other than by reason of exercise or settlement). The Compensation Committee of our Board of Directors (“Committee”), which is charged with administering the 2017 LTIP, has the authority to determine the terms of each award.

Our former equity compensation plan, the 2012 LTIP, approved by our shareholders in May 2012, expired on May 24, 2017. The 2012 LTIP authorized the issuance of incentive and nonqualified stock options, restricted stock, restricted stock units, deferred stock awards, PSUs, stock appreciation rights, cash-based awards, and other share-based awards. We issued nonqualified stock options, restricted stock, restricted stock units, and PSUs under the 2012 LTIP. The Committee, which was charged with administering the 2012 LTIP, had the authority to determine the terms of each award. Nonqualified stock options granted to employees under the 2012 LTIP, the exercise price of which was not less than the fair market value of the underlying common shares on the grant date, generally expire on the earlier of: (1) the seven year term set by the Committee; or (2) one year following termination of employment, death, or disability. The nonqualified stock options generally vest ratably over a four-year period; however, upon a change in control, all awards outstanding automatically vest.

Our other former equity compensation plan, the 2005 LTIP, approved by our shareholders in May 2005, expired on May 16, 2012. The 2005 LTIP authorized the issuance of nonqualified stock options, restricted stock, and other award types. We issued only nonqualified stock options and restricted stock under the 2005 LTIP. The Committee, which was charged with administering the 2005 LTIP, had the authority to determine the terms of each award. Nonqualified stock options granted to employees under the 2005 LTIP, the exercise price of which was not less than the fair market value of the underlying common shares on the grant date, generally expire on the earlier of: (1) the seven year term set by the Committee; or (2) one year following termination of employment, death, or disability. The nonqualified stock options generally vest ratably over a four-year period; however, upon a change in control, all awards outstanding automatically vest.

Share-based compensation expense was \$27.8 million, \$33.0 million and \$13.5 million in 2017, 2016, and 2015, respectively.



### Non-vested Restricted Stock

The following table summarizes the non-vested restricted stock awards and restricted stock units activity for fiscal years 2015, 2016, and 2017:

	Number of Shares	Weighted Average Grant-Date Fair Value Per Share
Outstanding non-vested restricted stock at January 31, 2015	744,805	\$ 38.13
Granted	217,767	49.00
Vested	(128,140)	38.42
Forfeited	(49,283)	40.28
Outstanding non-vested restricted stock at January 30, 2016	785,149	\$ 40.96
Granted	261,792	45.62
Vested	(252,156)	42.03
Forfeited	(23,264)	43.63
Outstanding non-vested restricted stock at January 28, 2017	771,521	\$ 42.12
Granted	205,819	51.16
Vested	(368,408)	42.84
Forfeited	(19,089)	44.02
Outstanding non-vested restricted stock at February 3, 2018	589,843	\$ 44.77

The non-vested restricted stock units granted in 2015, 2016 and 2017 generally vest, and are expensed, on a ratable basis over three years from the grant date of the award, if certain threshold financial performance objectives are achieved and the grantee remains employed by us through the vesting dates.

The non-vested restricted stock awards granted to employees in 2013 have met the applicable threshold financial performance objective and will vest in 2018.

### Performance Share Units

In 2013, in connection with his appointment as CEO and President, Mr. Campisi was awarded 37,800 PSUs, which vest based on the achievement of share price performance goals and had a weighted average grant-date fair value per share of \$34.68. The PSUs have a contractual term of seven years. In 2014, Mr. Campisi's first two tranches for a total of 25,200 PSUs vested. In 2016, Mr. Campisi's third and final tranche of 12,600 PSUs vested.

In 2015, 2016, and 2017, we issued PSUs to certain members of management, which vest if certain financial performance objectives are achieved over a three-year performance period and the grantee remains employed by us through that performance period. At February 3, 2018, 855,041 non-vested PSUs were outstanding in the aggregate. The financial performance objectives for each fiscal year within the three-year performance period are approved by the Compensation Committee of our Board of Directors during the first quarter of the respective fiscal year.

As a result of the process used to establish the financial performance objectives, we will only meet the requirements of establishing a grant date for the PSUs when we communicate the financial performance objectives for the third fiscal year of the award to the award recipients, which will then trigger the service inception date, the fair value of the awards, and the associated expense recognition period. If we meet the applicable threshold financial performance objectives over the three-year performance period and the grantee remains employed by us through the end of the performance period, the PSUs will vest on the first trading day after we file our Annual Report on Form 10-K for the last fiscal year in the performance period.

We have begun or expect to begin recognizing expense related to PSUs as follows:

Issue Year	Outstanding PSUs at February 3, 2018	Actual Grant Date	Expected Valuation (Grant) Date	Actual or Expected Expense Period
2015	249,324	March 2017		Fiscal 2017
2016	337,421		March 2018	Fiscal 2018
2017	268,296		March 2019	Fiscal 2019
Total	855,041			

The number of shares to be distributed upon vesting of the PSUs depends on our average performance attained during the three-year performance period as compared to the targets defined by the Compensation Committee, and may result in the distribution of an amount of shares that is greater or less than the number of PSUs granted, as defined in the award agreement. The PSUs issued in 2015 performed above target and more shares will be distributed than initially granted. At February 3, 2018, we estimate the attainment of an average performance that is greater than the targets established for the PSUs issued in 2016. In 2017 and 2016, we recognized \$15.4 million and \$17.5 million, respectively, in share-based compensation expense related to PSUs.

The following table summarizes the activity related to PSUs for fiscal years 2016 and 2017:

	PSUs, excluding 2013 CEO PSUs	
	Number of Shares	Weighted Average Grant-Date Fair Value Per Share
Outstanding PSUs at January 30, 2016	—	\$ —
Granted	379,794	41.04
Vested	—	—
Forfeited	(19,437)	41.04
Outstanding PSUs at January 28, 2017	360,357	\$ 41.04
Granted	259,042	51.49
Vested	(360,357)	41.04
Forfeited	(9,718)	51.49
Outstanding PSUs at February 3, 2018	249,324	\$ 51.49

### Board of Directors' Awards

In 2016 and 2015, we granted to each non-employee member of our Board of Directors a restricted stock award. In 2017, we granted (1) the chairman of our Board of Directors an annual restricted stock unit award having a grant date fair value of approximately \$200,000, and (2) the remaining non-employees elected to our Board of Directors at our 2017 Annual Meeting of Shareholders an annual restricted stock unit award having a grant date fair value of approximately \$135,000. These awards vest on the earlier of (1) the trading day immediately preceding the next annual meeting of our shareholders or (2) the death or disability of the grantee. However, the restricted stock units will not vest if the non-employee director ceases to serve on our Board of Directors before either vesting event occurs. Additionally, we allow our non-employee directors to defer all or a portion of their restricted stock unit award and by such election, the non-employee director can defer receipt of the restricted stock units until the earlier of the first to occur; (1) the specified date by the non-employee director in the deferral agreement, (2) the non-employee director's death or disability, or (3) the date the non-employee director ceases to serve as a member of the Board of Directors.

## Stock Options

The following table summarizes information about our stock options outstanding and exercisable at February 3, 2018:

Range of Prices		Options Outstanding			Options Exercisable		
Greater Than	Less Than or Equal to	Options Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price	
\$ 30.01	\$ 40.00	163,126	2.1	\$ 35.58	163,126	\$ 35.58	
\$ 40.01	\$ 50.00	117,500	1.1	43.85	117,500	43.85	
		280,626	1.7	\$ 39.04	280,626	\$ 39.04	

A summary of the annual stock option activity for fiscal years 2015, 2016, and 2017 is as follows:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000's)
Outstanding stock options at January 31, 2015	1,703,213	\$ 37.59		
Exercised	(450,136)	36.17		
Forfeited	(78,175)	35.84		
Outstanding stock options at January 30, 2016	1,174,902	\$ 38.26		
Exercised	(572,727)	37.81		
Forfeited	(12,500)	35.83		
Outstanding stock options at January 28, 2017	589,675	\$ 38.75		
Exercised	(304,049)	38.51		
Forfeited	(5,000)	36.93		
Outstanding stock options at February 3, 2018	280,626	\$ 39.04	1.7	\$ 5,247
Vested or expected to vest at February 3, 2018	280,626	\$ 39.04	1.7	\$ 5,247
Exercisable at February 3, 2018	280,626	\$ 39.04	1.7	\$ 5,247

The stock options granted in prior years vest in equal amounts on the first four anniversaries of the grant date and have a contractual term of seven years. With the adoption of ASU 2016-09, we have eliminated our annual forfeiture rate assumption.

During 2017, 2016, and 2015, the following activity occurred under our share-based compensation plans:

(In thousands)	2017	2016	2015
Total intrinsic value of stock options exercised	\$ 4,423	\$ 7,392	\$ 5,980
Total fair value of restricted stock vested	\$ 19,015	\$ 11,510	\$ 6,259
Total fair value of performance shares vested	\$ 21,026	\$ 621	\$ —

The total unearned compensation cost related to all share-based awards outstanding, excluding PSUs issued in 2016 and 2017, at February 3, 2018 was approximately \$11.0 million. This compensation cost is expected to be recognized through January 2021 based on existing vesting terms with the weighted-average remaining expense recognition period being approximately 1.7 years from February 3, 2018.

## NOTE 8 – EMPLOYEE BENEFIT PLANS

### Pension Benefits

In prior years, we maintained the Pension Plan and Supplemental Pension Plan covering certain employees whose hire date was on or before April 1, 1994. Benefits under each plan were based on credited years of service and the employee's compensation during the last five years of employment.

On October 31, 2015, our Board of Directors approved amendments to freeze benefits and terminate the Pension Plan. The Pension Plan discontinued accruing benefits on December 31, 2015, and the termination was effective January 31, 2016. On December 2, 2015, our Board of Directors approved amendments to freeze benefits and terminate the Supplemental Pension Plan. The Supplemental Pension Plan discontinued accruing benefits on December 31, 2015, and the termination was effective December 31, 2015. During 2016, we completed the termination proceedings for the Pension Plan, including seeking and receiving a favorable IRS determination letter, conducting a lump sum offering to our active and terminated vested participants, and conducting an insurance placement for the annuity purchasers. Additionally, we funded the Pension Plan and reduced our liability thereunder to zero. In January 2017, we completed the termination proceedings for the Supplemental Pension Plan and paid all accrued balances to participants through lump sum settlements.

In addition, in the fourth quarter of 2015, when we communicated the approved amendments to the participants of the Pension Plan, we informed Pension Plan participants that we would provide for a one-time transition benefit to participants who were actively employed on December 31, 2015. We recorded a charge in selling and administrative expenses for this one-time transition benefit of \$7.0 million, which was contributed to participants' savings plan accounts in 2016.

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

<i>(In thousands)</i>	2016	2015
Service cost - benefits earned in the period	\$ —	\$ 1,923
Interest cost on projected benefit obligation	879	2,444
Expected investment return on plan assets	(1,536)	(2,628)
Amortization of prior service cost	—	4
Amortization of actuarial loss	2,241	1,817
Curtailement loss	—	191
Settlement loss	24,483	1,912
Net periodic pension cost	\$ 26,067	\$ 5,663

The weighted-average assumptions used to determine net periodic pension expense were:

	2016	2015
Discount rate	1.2%	3.3%
Rate of increase in compensation levels	—%	2.8%
Expected long-term rate of return	2.8%	5.2%

### Savings Plans

We have a savings plan with a 401(k) deferral feature and a nonqualified deferred compensation plan with a similar deferral feature for eligible employees. We contribute a matching percentage of employee contributions. Our matching contributions are subject to Internal Revenue Service ("IRS") regulations. For 2017, 2016, and 2015, we expensed \$7.7 million, \$6.6 million, and \$6.3 million, respectively, related to our matching contributions. In connection with our nonqualified deferred compensation plan, we had liabilities of \$33.4 million and \$24.4 million at February 3, 2018 and January 28, 2017, respectively, which are recorded in other liabilities.

## NOTE 9 – INCOME TAXES

On December 22, 2017, the President of the United States signed into law legislation commonly referred to as the Tax Cut and Jobs Act (“TCJA”). The legislation significantly changed U.S. tax law, including permanently lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018 and accelerating tax depreciation for certain assets placed in service after September 27, 2017. Since the rate reduction was effective on January 1, 2018, our 2017 federal statutory tax rate is a blended rate of 33.7%. Also, we estimated the effects of the corporate income tax rate reduction on our net deferred tax assets resulting in the provisional recognition of an additional \$4.5 million of income tax expense in our consolidated statement of operations for 2017.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA. We have recorded the provisional tax impacts of the TCJA on existing current and deferred tax amounts for 2017. The ultimate impact may differ from these provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions we have made, and additional regulatory guidance that may be issued. The accounting is expected to be complete in the fourth quarter of 2018 in light of the filing of our 2017 U.S. corporate income tax return and anticipated regulatory guidance.

The provision for income taxes was comprised of the following:

<i>(In thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Current:</b>			
U.S. Federal	\$ 63,743	\$ 87,521	\$ 73,817
U.S. State and local	9,201	13,122	10,783
<b>Total current tax expense</b>	<b>72,944</b>	<b>100,643</b>	<b>84,600</b>
<b>Deferred:</b>			
U.S. Federal	28,336	(7,965)	(348)
U.S. State and local	4,242	(1,207)	(275)
<b>Total deferred tax expense</b>	<b>32,578</b>	<b>(9,172)</b>	<b>(623)</b>
<b>Income tax provision</b>	<b>\$ 105,522</b>	<b>\$ 91,471</b>	<b>\$ 83,977</b>

Net deferred tax assets fluctuated by items that are not reflected in deferred tax expense in the above table. In 2017, net deferred tax assets increased by \$0.1 million as a result of ASU 2016-09. Net deferred tax assets decreased by \$10.4 million in 2016, and increased by \$0.8 million in 2015, principally from pension-related charges recorded in accumulated other comprehensive loss.

Reconciliation between the statutory federal income tax rate and the effective income tax rate was as follows:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Statutory federal income tax rate	33.7%	35.0%	35.0%
<b>Effect of:</b>			
State and local income taxes, net of federal tax benefit	3.0	3.2	3.0
Provisional effect of the TCJA	1.5	—	—
Work opportunity tax and other employment tax credits	(1.0)	(1.1)	(1.1)
Excess tax benefit from share-based compensation	(1.3)	—	—
Other, net	(0.2)	0.3	0.1
<b>Effective income tax rate</b>	<b>35.7%</b>	<b>37.4%</b>	<b>37.0%</b>

In 2017, we adopted ASU 2016-09. Prior to the adoption of ASU 2016-09, differences between the tax deduction ultimately realized from an equity award and the deferred tax asset recognized as compensation cost were generally credited (“excess tax benefits”) or charged (“deficiencies”) to equity. Under ASU 2016-09, all tax effects of share-based compensation, including excess tax benefits and tax deficiencies, are recognized in income tax expense. In 2017, we recognized excess tax benefits which reduced income tax expense by \$4.3 million. Tax benefits of \$0.5 million and \$0.7 million in 2016 and 2015, respectively, were credited directly to additional paid-in capital within shareholders’ equity.

Income tax payments and refunds were as follows:

<i>(In thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Income taxes paid	\$ 99,693	\$ 103,323	\$ 56,158
Income taxes refunded	(888)	(16,187)	(818)
Net income taxes paid	\$ 98,805	\$ 87,136	\$ 55,340

Deferred taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax, including income tax uncertainties. Significant components of our deferred tax assets and liabilities were as follows:

<i>(In thousands)</i>	<b>February 3, 2018</b>	<b>January 28, 2017</b>
Deferred tax assets:		
Workers’ compensation and other insurance reserves	\$ 21,106	\$ 32,194
Accrued rent	15,292	22,259
Compensation related	14,308	39,616
Uniform inventory capitalization	13,591	18,648
Depreciation and fixed asset basis differences	8,435	10,095
State tax credits, net of federal tax benefit	4,246	3,844
Accrued state taxes	3,749	7,157
Accrued operating liabilities	537	2,056
Other	11,623	17,138
Valuation allowances	(2,311)	(2,087)
Total deferred tax assets	90,576	150,920
Deferred tax liabilities:		
Accelerated depreciation and fixed asset basis differences	51,310	71,155
Lease construction reimbursements	11,542	15,682
Prepaid expenses	5,559	6,553
Workers’ compensation and other insurance reserves	2,424	3,482
Other	5,755	7,579
Total deferred tax liabilities	76,590	104,451
Net deferred tax assets	\$ 13,986	\$ 46,469

We have the following income tax loss and credit carryforwards at February 3, 2018 (amounts are shown net of tax excluding the federal income tax effect of the state and local items):

<i>(In thousands)</i>			
U.S. State and local:			
State net operating loss carryforwards	\$	17	Expires fiscal years 2020 through 2025
California enterprise zone credits		4,976	Predominately expires fiscal year 2023
Other state credits		399	Expires fiscal years through 2025
<b>Total income tax loss and credit carryforwards</b>	<b>\$</b>	<b>5,392</b>	

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for 2017, 2016, and 2015:

<i>(In thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Unrecognized tax benefits - beginning of year	\$ 13,121	\$ 13,772	\$ 14,922
Gross increases - tax positions in current year	361	822	939
Gross increases - tax positions in prior period	1,329	171	872
Gross decreases - tax positions in prior period	(1,385)	(80)	(430)
Settlements	(319)	(236)	(732)
Lapse of statute of limitations	(1,434)	(1,328)	(1,799)
<b>Unrecognized tax benefits - end of year</b>	<b>\$ 11,673</b>	<b>\$ 13,121</b>	<b>\$ 13,772</b>

At the end of 2017 and 2016, the total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is \$9.2 million and \$8.4 million, respectively, after considering the federal tax benefit of state and local income taxes of \$2.1 million and \$4.1 million, respectively. Unrecognized tax benefits of \$0.6 million and \$0.6 million in 2017 and 2016, respectively, relate to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The uncertain timing items could result in the acceleration of the payment of cash to the taxing authority to an earlier period.

We recognized an expense associated with interest and penalties on unrecognized tax benefits of approximately \$0.1 million, \$0.2 million, and \$0.1 million during 2017, 2016, and 2015, respectively, as a component of income tax expense. The amount of accrued interest and penalties recognized in the accompanying consolidated balance sheets at February 3, 2018 and January 28, 2017 was \$6.1 million and \$6.3 million, respectively.

We are subject to U.S. federal income tax, and income tax of multiple state and local jurisdictions. The statute of limitations for assessments on our federal income tax returns for periods prior to 2014 has lapsed. In addition, the state income tax returns filed by us are subject to examination generally for periods beginning with 2006, although state income tax carryforward attributes generated prior to 2006 and non-filing positions may still be adjusted upon examination. We have various state returns in the process of examination or administrative appeal. After acquiring Canadian operations on July 18, 2011 and prior to dissolution on June 10, 2014, we also were subject to Canadian and provincial taxes. Generally, the time limit for reassessing returns for Canadian and provincial income taxes for periods prior to the short fiscal period ended January 28, 2012 have lapsed.

We have estimated the reasonably possible expected net change in unrecognized tax benefits through February 2, 2019, based on expected cash and noncash settlements or payments of uncertain tax positions and lapses of the applicable statutes of limitations for unrecognized tax benefits. The estimated net decrease in unrecognized tax benefits for the next 12 months is approximately \$5.0 million. Actual results may differ materially from this estimate.

## NOTE 10 – COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

### *Shareholder and Derivative Matters*

On May 21, May 22 and July 2, 2012, three shareholder derivative lawsuits were filed in the U.S. District Court for the Southern District of Ohio against us and certain of our current and former outside directors and executive officers. The lawsuits were consolidated, and, on August 13, 2012, plaintiffs filed a consolidated complaint captioned *In re Big Lots, Inc. Shareholder Litigation*, No. 2:12-cv-00445 (S.D. Ohio) (the “Consolidated Derivative Action”), which generally alleged that the individual defendants traded in our common shares based on material, nonpublic information concerning our guidance for fiscal 2012 and the first quarter of fiscal 2012 and the director defendants failed to suspend our share repurchase program during such trading activity. The consolidated complaint asserted claims under Ohio law for breach of fiduciary duty, unjust enrichment, misappropriation of trade secrets and corporate waste and sought declaratory relief and disgorgement to us of proceeds from any wrongful sales of our common shares, plus attorneys’ fees and expenses.

The defendants filed a motion to dismiss the consolidated complaint, which was granted by the Court in an Opinion and Order dated April 14, 2015, pursuant to which plaintiffs’ claims were all dismissed with prejudice, with the exception of their claim for corporate waste, which was dismissed without prejudice. On May 5, 2015, plaintiffs filed a Motion for Leave to File Verified Consolidated Amended Shareholder Derivative Complaint, which sought to replead the claim for corporate waste that was dismissed without prejudice by the Court, as well as a Motion for Reconsideration and, in the Alternative, for Certification of Question of State Law to the Supreme Court of Ohio. Defendants’ responses to both motions were filed on May 29, 2015. On August 3, 2015, the Court granted Plaintiffs’ Motion for Leave to File Verified Consolidated Amended Shareholder Derivative Complaint, and Plaintiffs filed the amended complaint on the same date, asserting a claim for corporate waste against Jeffrey Berger, Steven Fishman, David Kollat, Brenda Lauderback, Philip Mallott, Russell Solt, and Dennis Tishkoff. On September 30, 2015, defendants filed an answer to the amended complaint.

We received a letter dated January 28, 2013, sent on behalf of a shareholder demanding that our Board of Directors investigate and take action in connection with the allegations made in the derivative and securities lawsuits described here within. The shareholder indicated that he would commence a derivative lawsuit if our Board of Directors failed to take the demanded action. On March 6, 2013, our Board of Directors referred the shareholder’s letter to a committee of independent directors to investigate the matter. That committee, with the assistance of independent outside counsel, investigated the allegations in the shareholder’s demand letter and, on August 28, 2013, reported its findings to our Board of Directors along with its recommendation that the Board reject the shareholder’s demand. Our Board of Directors unanimously accepted the recommendation of the demand investigation committee and, on September 9, 2013, outside counsel for the committee sent a letter to counsel for the shareholder informing the shareholder of the Board’s determination. On October 18, 2013, the shareholder filed a derivative lawsuit captioned *Brosz v. Fishman et al.*, No. 1:13-cv-00753 (S.D. Ohio) (the “Brosz Action”) in the U.S. District Court for the Southern District of Ohio against us and each of the current and former outside directors and executive officers originally named in the 2012 shareholder derivative lawsuit. The plaintiff’s complaint generally alleged that the individual defendants traded in our common shares based on material, nonpublic information concerning our guidance for fiscal 2012 and the first quarter of fiscal 2012 and the director defendants failed to suspend our share repurchase program during such trading activity. The complaint asserted claims under Ohio law for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, corporate waste and misappropriation of trade secrets and sought damages, injunctive relief and disgorgement to us of proceeds from any wrongful sales of our common shares, plus attorneys’ fees and expenses.

The defendants filed a motion to dismiss the complaint, which was granted by the Court in an Opinion and Order dated April 14, 2015, which dismissed the plaintiff’s claims with prejudice with the exception of his claim for corporate waste and his assertion that our Board of Directors wrongfully rejected his demand to take action against the individually named defendants. On May 5, 2015, the Court so ordered the parties’ stipulation, staying plaintiff’s time to seek leave to amend his complaint in order to make a request to inspect the Company’s books and records pursuant to Ohio Revised Code §1701.37, and plaintiff served that request for inspection on May 8, 2015. On August 17, 2015, plaintiff filed an Amended Verified Shareholder Derivative Complaint. On September 30, 2015, defendants moved to dismiss the amended complaint. On December 29, 2016, the Court denied defendants’ motion to dismiss the amended complaint and ordered that the Brosz Action be consolidated with the Consolidated Derivative Action.



On February 10, 2014, a shareholder derivative lawsuit was filed in the Franklin County Common Pleas Court in Columbus, Ohio, captioned *Tremblay v. Campisi et al.*, No. 14CV-02-1421 (Ohio Ct. Com. Pl., Franklin Cnty.) (the “Tremblay Action”), against us and certain of our current and former outside directors and executive officers (David Campisi, Steven Fishman, Joe Cooper, Charles Haubiel, Timothy Johnson, Robert Claxton, John Martin, Norman Rankin, Paul Schroeder, Robert Segal, Steven Smart, David Kollat, Jeffrey Berger, James Chambers, Peter Hayes, Brenda Lauderback, Philip Mallott, Russell Solt, James Tener and Dennis Tishkoff). The plaintiff’s complaint generally alleges that the individual defendants traded in our common shares based on material, nonpublic information concerning our guidance for fiscal 2012 and the first quarter of fiscal 2012 and the director defendants failed to suspend our share repurchase program during such trading activity. The complaint also alleges that we and various individual defendants made false and misleading statements regarding our Canadian operations prior to our announcement on December 5, 2013 that we were exiting the Canadian market. The complaint asserts claims under Ohio law for breach of fiduciary duty, unjust enrichment, waste of corporate assets and misappropriation of insider information and seeks damages, injunctive relief and disgorgement to us of proceeds from any wrongful sales of our common shares, plus attorneys’ fees and expenses. At the parties’ request, the Court stayed this lawsuit until after the judge in the federal derivative lawsuits discussed in the preceding paragraphs ruled on the motions to dismiss pending in those actions. On January 12, 2017, the Tremblay Action was voluntarily dismissed by the plaintiffs, without prejudice to refile.

On August 1, 2016, our Board of Directors passed a resolution creating a special litigation committee (“SLC”) to conduct an independent investigation and determine, in its sole discretion, whether it is in the best interests of the Company to pursue, settle, or seek dismissal of, the claims asserted in the Consolidated Derivative Action, the Brosz Action, and the Tremblay Action. The SLC is composed of three members, each of whom is a director that is not a party to any of the derivative actions and was not a member of the Board until well after the relevant time period. The SLC retained independent counsel and conducted an investigation. On October 20, 2016, the Company filed motions to stay all proceedings in the Consolidated Derivative Action and the Brosz Action pending the completion of the SLC’s investigation. The Court granted the motion to stay all proceedings on December 15, 2016. As noted above, the Brosz action was consolidated with the Consolidated Derivative Action on December 29, 2016, and the Tremblay Action was voluntarily dismissed on January 12, 2017. On May 18, 2017, after concluding its investigation, the SLC filed a motion to dismiss the Consolidated Derivative Action. On May 19, 2017, the Court issued an order providing for discovery and briefing in connection with the SLC’s motion to dismiss and setting a schedule for further litigation of the merits of the lawsuit. On December 14, 2017, the parties entered into a Stipulation and Agreement of Settlement and Plaintiff filed an Unopposed Motion for Preliminary Approval of Derivative Settlement with the Court. That motion remains pending with the Court.

On July 9, 2012, a putative securities class action lawsuit captioned *Willis, et al. v. Big Lots, Inc., et al.*, 2:12-cv-00604 (S.D. Ohio) was filed in the U.S. District Court for the Southern District of Ohio on behalf of persons who acquired our common shares between February 2, 2012 and April 23, 2012. This lawsuit was filed against us, Lisa Bachmann, Mr. Cooper, Mr. Fishman and Mr. Haubiel. The complaint in the putative class action generally alleges that the defendants made statements concerning our financial performance that were false or misleading. The complaint asserts claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 and seeks damages in an unspecified amount, plus attorneys’ fees and expenses. The lead plaintiff filed an amended complaint on April 4, 2013, which added Mr. Johnson as a defendant, removed Ms. Bachmann as a defendant, and extended the putative class period to August 23, 2012. On May 6, 2013, the defendants filed a motion to dismiss the putative class action complaint. On January 21, 2016, the Court granted in part and denied in part the defendants’ motion to dismiss, allowing some claims to move forward. On May 27, 2016, the lead plaintiff moved for class certification (requesting a class period from March 2, 2012 through August 23, 2012) and to appoint class representatives and class counsel. Defendants opposed the motion. On March 17, 2017, the Court granted plaintiffs’ motion, certifying the class and appointing class representatives and class counsel. On March 31, 2017, defendants filed a petition pursuant to Federal Rule of Civil Procedure 23(f) for appeal of the Court’s ruling with the U.S. Court of Appeals for the Sixth Circuit. Defendant’s petition was granted on August 23, 2017, and briefing on the appeal was completed January 12, 2018. On August 28, 2017, defendants filed a motion in the District Court to stay all further proceedings pending the resolution of defendants’ appeal of class certification. On September 19, 2017, the District Court granted defendants’ motion and stayed all proceedings, except for the exchange of expert reports, pending the resolution of defendants’ appeal. Fact discovery in the District Court was substantially completed on May 26, 2017.

We believe that the shareholder derivative and putative class action lawsuits are without merit, and we intend to defend ourselves vigorously against the allegations levied in these lawsuits. While a loss from these lawsuits is reasonably possible, at this time, we cannot reasonably estimate the amount of any loss that may result or whether the lawsuits will have a material impact on our financial statements.

### ***California Hazardous Materials Matter***

On October 1, 2013, we received a subpoena from the District Attorney for the County of Alameda, State of California, seeking information concerning our handling of hazardous materials and hazardous waste in the State of California. We provided information and cooperated with the authorities from multiple counties and cities in California in connection with this matter. In the first quarter of 2016, we entered into settlement negotiations related to this matter. We settled this matter in the first quarter of 2017.

During the first quarter of 2016, we recorded accruals totaling \$4.7 million associated with pending legal and regulatory matters, including this matter related to hazardous materials and hazardous waste.

### ***Tabletop Torches Matter***

In 2013, we sold certain tabletop torch and citronella products manufactured by third parties. In August 2013, we recalled the tabletop torches and discontinued their sale in our stores. In 2014, we were named as a defendant in a number of lawsuits relating to these products alleging personal injuries suffered as a result of negligent shelving and pairing of the products, product design, manufacturing and marketing defects and/or breach of warranties. Although we believe that we are entitled to indemnification from the third-party manufacturers of the products and the company that tested the tabletop torches for all of the expenses that we have incurred with respect to these matters and that these expenses are covered by our insurance (subject to a \$1 million deductible), in the second quarter of 2015, we (1) determined that our ability to obtain any recovery from the manufacturer of the tabletop torches may be limited because, among other things, the manufacturer has exhausted its applicable insurance coverage, is domiciled outside the United States and has been dissolved by its parent and (2) became engaged in litigation with our excess insurance carrier regarding the scope of our coverage. In the second quarter of 2015, we settled one of the lawsuits and settled another lawsuit in the third quarter of 2015. We settled an additional lawsuit in the first quarter of 2017. In the second quarter of 2017, we reached a settlement with the plaintiff in the final lawsuit. Additionally, we have brought a separate lawsuit in the United States District Court of Massachusetts against the company that tested the tabletop torch and an additional lawsuit in the United States District Court for the Southern District of Ohio against the third-party manufacturers and the company that tested the tabletop torch. In the second quarter of 2017, we reached a settlement in principle with our primary and excess insurance carriers. In the third quarter of 2017, we finalized the settlement with our insurance carriers and collected the associated settlement funds, which resulted in a \$3.0 million gain. In addition, our excess insurance carrier has negotiated a settlement with each of the third-party manufacturers and the company that tested the tabletop torch. All pending actions have now been dismissed. During the second quarter of 2015, we recorded a \$4.5 million charge related to these matters.

### ***Other Matters***

We are involved in other legal actions and claims arising in the ordinary course of business. We currently believe that each such action and claim will be resolved without a material effect on our financial condition, results of operations, or liquidity. However, litigation involves an element of uncertainty. Future developments could cause these actions or claims to have a material effect on our financial condition, results of operations, and liquidity.

We are self-insured for certain losses relating to property, general liability, workers' compensation, and employee medical, dental, and prescription drug benefit claims, a portion of which is paid by employees, and we have purchased stop-loss coverage in order to limit significant exposure in these areas. Accrued insurance liabilities are actuarially determined based on claims filed and estimates of claims incurred but not reported. We use letters of credit, which amounted to \$57.7 million at February 3, 2018, as collateral to back certain of our self-insured losses with our claims administrators.

We have purchase obligations for outstanding purchase orders for merchandise issued in the ordinary course of our business that are valued at \$415.3 million, the entirety of which represents obligations due within one year of February 3, 2018. In addition, we have purchase commitments for future inventory purchases totaling \$11.5 million at February 3, 2018. We paid \$11.0 million, \$18.2 million, and \$11.3 million related to these commitments during 2017, 2016, and 2015, respectively. We are not required to meet any periodic minimum purchase requirements under this commitment. The term of the commitment extends until the purchase requirement is satisfied. We have additional purchase obligations in the amount of \$385.3 million primarily related to distribution and transportation, information technology, print advertising, energy procurement, and other store security, supply, and maintenance commitments.

## NOTE 11 – DERIVATIVE INSTRUMENTS

In the first quarter of 2015, our Board of Directors authorized our management to enter into derivative instruments designed to mitigate certain risks; and we entered into collar contracts to mitigate our risk associated with market fluctuations in diesel fuel prices. These contracts are used strictly to limit our risk exposure and not as speculative transactions. Our derivative instruments associated with diesel fuel do not meet the requirements for cash flow hedge accounting. Therefore, our derivative instruments associated with diesel fuel will be marked-to-market to determine their fair value, and the associated gains and losses will be recognized currently in other income (expense) on our consolidated statements of operations.

Our outstanding derivative instrument contracts were comprised of the following:

<i>(In thousands)</i>	<b>February 3, 2018</b>	<b>January 28, 2017</b>
Diesel fuel collars (in gallons)	3,600	4,425

The fair value of our outstanding derivative instrument contracts was as follows:

<i>(In thousands)</i>		<b>Assets (Liabilities)</b>	
<b>Derivative Instrument</b>	<b>Balance Sheet Location</b>	<b>February 3, 2018</b>	<b>January 28, 2017</b>
Diesel fuel collars	Other current assets	\$ 312	\$ 135
	Other assets	262	180
	Accrued operating expenses	(77)	(1,001)
	Other liabilities	(107)	(322)
<b>Total derivative instruments</b>		<b>\$ 390</b>	<b>\$ (1,008)</b>

The effect of derivative instruments on the consolidated statements of operations was as follows:

<i>(In thousands)</i>		<b>Amount of Gain (Loss)</b>		
<b>Derivative Instrument</b>	<b>Statements of Operations Location</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Diesel fuel collars				
	Realized	Other income (expense) \$ (756)	\$ (2,299)	\$ (535)
Unrealized	Other income (expense)	1,398	3,657	(4,665)
<b>Total derivative instruments</b>		<b>\$ 642</b>	<b>\$ 1,358</b>	<b>\$ (5,200)</b>

The fair values of our derivative instruments are determined using observable inputs from commonly quoted markets. These fair value measurements are classified as Level 2 within the fair value hierarchy.

## NOTE 12 – COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the components of accumulated other comprehensive loss, net of tax, during 2015 and 2016:

<i>(In thousands)</i>	<b>2016</b>	<b>2015</b>
<b>Beginning of Period</b>	<b>\$ (15,977)</b>	<b>\$ (14,656)</b>
Other comprehensive income before reclassifications	(185)	(3,730)
Amounts reclassified from accumulated other comprehensive loss	16,162	2,409
Net period change	15,977	(1,321)
<b>End of Period</b>	<b>—</b>	<b>(15,977)</b>

The amounts reclassified from accumulated other comprehensive loss associated with our pension plans have been reclassified to selling and administrative expenses in our statements of operations. Please see note 8 to the consolidated financial statements for further information on our pension plans.

### NOTE 13 - SALE OF REAL ESTATE

In January 2017, we sold real property in California, on a component of which we operated a store, for \$4.6 million. Based on the terms of the transaction, we recognized a pre-tax gain of \$3.8 million during the fourth quarter of 2016.

### NOTE 14 – BUSINESS SEGMENT DATA

We use the following seven merchandise categories, which match our internal management and reporting of merchandise net sales: Furniture, Seasonal, Soft Home, Food, Consumables, Hard Home, and Electronics, Toys, & Accessories. The Furniture category includes our upholstery, mattress, case goods, and ready-to-assemble departments. The Seasonal category includes our Christmas trim, lawn & garden, summer, and other holiday departments. The Soft Home category includes our fashion bedding, utility bedding, bath, window, decorative textile, home organization, area rugs, home décor, and frames departments. The Food category includes our beverage & grocery, candy & snacks, and specialty foods departments. The Consumables category includes our health, beauty and cosmetics, plastics, paper, chemical, and pet departments. The Hard Home category includes our small appliances, table top, food preparation, stationery, greeting cards, and home maintenance departments. The Electronics, Toys, & Accessories category includes our electronics, toys, jewelry, and hosiery departments.

We periodically assess, and potentially enact minor adjustments to, our product hierarchy, which can impact the roll-up of our merchandise categories. Our financial reporting process utilizes the most current product hierarchy in reporting net sales by merchandise category for all periods presented. Therefore, there may be minor reclassifications of net sales by merchandise category compared to previously reported amounts.

The following table presents net sales data by merchandise category:

<i>(In thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Furniture	\$ 1,237,022	\$ 1,195,365	\$ 1,135,757
Food	824,487	830,508	845,541
Consumables	822,533	817,747	826,530
Soft Home	789,596	750,814	718,666
Seasonal	765,907	739,106	725,238
Hard Home	428,788	437,575	477,451
Electronics, Toys, & Accessories	402,647	429,324	461,399
Net sales	\$ 5,270,980	\$ 5,200,439	\$ 5,190,582

**NOTE 15 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

Summarized fiscal quarterly financial data for 2017 and 2016 is as follows:

<b>Fiscal Year 2017</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Year</b>
<i>(In thousands, except per share amounts) (a)</i>					
Net sales	\$ 1,296,787	\$ 1,221,301	\$ 1,110,824	\$ 1,642,068	\$ 5,270,980
Gross margin	524,275	492,500	443,626	682,041	2,142,442
Net income	51,512	29,120	4,372	104,828	189,832

Earnings per share:					
Basic	\$ 1.16	\$ 0.68	\$ 0.10	\$ 2.50	\$ 4.43
Diluted	1.15	0.67	0.10	2.46	4.38

<b>Fiscal Year 2016</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Year</b>
<i>(In thousands, except per share amounts) (a)</i>					
Net sales	\$ 1,312,575	\$ 1,203,155	\$ 1,105,498	\$ 1,579,211	\$ 5,200,439
Gross margin	517,681	486,423	441,992	653,323	2,099,419
Net income	38,659	22,715	1,376	90,078	152,828

Earnings per share:					
Basic	\$ 0.80	\$ 0.51	\$ 0.03	\$ 2.04	\$ 3.37
Diluted	0.79	0.50	0.03	1.99	3.32

- (a) Earnings per share calculations for each fiscal quarter are based on the applicable weighted-average shares outstanding for each period, and the sum of the earnings per share for the four fiscal quarters may not necessarily be equal to the full year earnings per share amount.

**NOTE 16 – SUBSEQUENT EVENT**

On March 7, 2018, our Board of Directors authorized the repurchase of up to \$100.0 million of our common shares (“2018 Repurchase Program”). Pursuant to the 2018 Repurchase Program, we may repurchase shares in the open market and/or in privately negotiated transactions at our discretion, subject to market conditions and other factors. Common shares acquired through the 2018 Repurchase Program will be available to meet obligations under our equity compensation plans and for general corporate purposes. The 2018 Repurchase Program has no scheduled termination date and will be funded with cash and cash equivalents, cash generated from operations or, if needed, by drawing on the 2011 Credit Agreement.

## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

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

Our management, with the participation of our Principal Executive Officers and Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), as of the end of the period covered by this report. Based on that evaluation, our Principal Executive Officers and Principal Financial Officer have each concluded that such disclosure controls and procedures were effective as of the end of the period covered by this report.

#### **Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for us. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Management assessed the effectiveness of our internal control over financial reporting as of February 3, 2018. In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework* (2013 Framework). Based on this assessment, management, including our Principal Executive Officers and Principal Financial Officer, concluded that we maintained effective internal control over financial reporting as of February 3, 2018.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on our internal control over financial reporting. The report appears in the Financial Statements and Supplementary Data section of this Form 10-K.

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

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

None.

### Part III

#### Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the captions “Proposal One: Election of Directors,” “Governance,” and “Stock Ownership” in the 2018 Proxy Statement, with respect to directors, shareholder nomination procedures, the code of ethics, the Audit Committee, our audit committee financial experts, and Section 16(a) beneficial ownership reporting compliance, is incorporated herein by reference in response to this item. The information contained in Part I of this Form 10-K under the caption “Supplemental Item. Executive Officers of the Registrant,” with respect to executive officers, is incorporated herein by reference in response to this item.

#### Item 11. Executive Compensation

The information contained under the captions “Governance,” “Director Compensation,” and “Executive Compensation” in the 2018 Proxy Statement, with respect to corporate Compensation Committee interlocks and insider participation, director compensation, the Compensation Committee Report, and executive compensation, is incorporated herein by reference in response to this item.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

##### Equity Compensation Plan Information

The following table summarizes information as of February 3, 2018, relating to our equity compensation plans pursuant to which our common shares may be issued.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (#) (a)	Weighted-average exercise price of outstanding options, warrants, and rights (\$) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#) (c)
Equity compensation plans approved by security holders	1,544,185 (1)(2)	39.04 (3)	5,506,484 (4)
Equity compensation plans not approved by security holders	—	—	—
Total	1,544,185	39.04 (3)	5,506,484

(1) Includes stock options, PSUs, and restricted stock units granted under the 2017 LTIP, the 2012 LTIP, and the 2005 LTIP. In addition, we had 181,325 shares of unvested restricted stock outstanding under the 2012 LTIP.

(2) The common shares issuable upon exercise of outstanding stock options granted under each shareholder-approved plan are as follows:

2012 LTIP	163,126
2005 LTIP	117,500

(3) The weighted average exercise price only represents stock options and does not take into account the PSUs and the restricted stock units granted under the 2017 LTIP.

(4) The common shares available for issuance under the 2017 LTIP are limited to 5,506,484 common shares. There are no common shares available for issuance under any of the other shareholder-approved plans.

The 2005 LTIP expired on May 16, 2012. The 2012 LTIP was expired on May 24, 2017. The 2017 LTIP was approved in May 2017. See note 7 to the accompanying consolidated financial statements.

The information contained under the caption “Stock Ownership” in the 2018 Proxy Statement, with respect to the security ownership of certain beneficial owners and management, is incorporated herein by reference in response to this item.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information contained under the caption “Governance - Determination of Director Independence” and “Governance - Related Person Transactions” in the 2018 Proxy Statement, with respect to the review of director independence and transactions with related persons, is incorporated herein by reference in response to this item.

**Item 14. Principal Accounting Fees and Services**

The information contained under the captions “Audit Committee Disclosure - Audit and Non-Audit Services Pre-Approval Policy” and “Audit Committee Disclosure - Fees Paid to Independent Registered Public Accounting Firm” in the 2018 Proxy Statement, with respect to the Audit Committee's pre-approval policies and procedures and the fees paid to Deloitte & Touche LLP, is incorporated herein by reference in response to this item.



## Part IV

### Item 15. Exhibits, Financial Statement Schedules

#### Index to Consolidated Financial Statements, Financial Statement Schedules and Exhibits

(a) Documents filed as part of this report:

(1) Financial Statements

Reports of Independent Registered Public Accounting Firm	36
Consolidated Statements of Operations	38
Consolidated Statements of Comprehensive Income	39
Consolidated Balance Sheets	40
Consolidated Statements of Shareholders' Equity	41
Consolidated Statements of Cash Flows	42
Notes to Consolidated Financial Statements	43

All other financial statements not listed in the preceding index are omitted because they are not required or are not applicable or because the information required to be set forth therein either was not material or is included in the consolidated financial statements or notes thereto.

(2) Financial Statement Schedules

All schedules are omitted because they are not required or are not applicable or because the information required to be set forth therein either was not material or is included in the consolidated financial statements or notes thereto.

(3) **Exhibits.** Exhibits marked with an asterisk (\*) are filed herewith. The Exhibit marked with two asterisks (\*\*) is furnished electronically with this Annual Report. Copies of exhibits will be furnished upon written request and payment of our reasonable expenses in furnishing the exhibits. Exhibits 10.1 through 10.42 are management contracts or compensatory plans or arrangements.

<u>Exhibit No.</u>	<u>Document</u>
2	Agreement of Merger (incorporated herein by reference to Exhibit 2 to our Form 10-Q for the quarter ended May 5, 2001) (File No. 1-8897).
3.1	Amended Articles of Incorporation (incorporated herein by reference to Exhibit 3(a) to our Form 10-Q for the quarter ended May 5, 2001) (File No. 1-8897).
3.2	Amendment to the Amended Articles of Incorporation of Big Lots, Inc. (incorporated herein by reference to Exhibit 3.1 to our Form 8-K dated May 27, 2010) (File No. 1-8897).
3.3	Code of Regulations (incorporated herein by reference to Exhibit 3(b) to our Form 10-Q for the quarter ended May 5, 2001) (File No. 1-8897).
4	Specimen Common Share Certificate (incorporated herein by reference to Exhibit 4(a) to our Form 10-K for the year ended February 2, 2002) (File No. 1-8897).
10.1	Big Lots 2005 Long-Term Incentive Plan, as amended and restated effective May 27, 2010 (incorporated herein by reference to Exhibit 4.4 to our Form S-8 dated March 3, 2011) (File No. 1-8897).
10.2	Form of Big Lots 2005 Long-Term Incentive Plan Non-Qualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.4 to our Form 8-K dated February 21, 2006) (File No. 1-8897).
10.3	Form of Big Lots 2005 Long-Term Incentive Plan Non-Qualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.3 to our Form 8-K dated March 4, 2009) (File No. 1-8897).
10.4	Form of Big Lots 2005 Long-Term Incentive Plan Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.4 to our Form 8-K dated March 4, 2009) (File No. 1-8897).
10.5	Big Lots 2012 Long-Term Incentive Plan, as amended and restated effective May 29, 2014 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated May 29, 2014).

<u>Exhibit No.</u>	<u>Document</u>
10.6	Form of Big Lots 2012 Long-Term Incentive Plan Non-Qualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated May 23, 2012) (File No. 1-8897).
10.7	Form of Big Lots 2012 Long-Term Incentive Plan Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.3 to our Form 8-K dated May 23, 2012) (File No. 1-8897).
10.8	Form of Big Lots 2012 Long-Term Incentive Plan Restricted Stock Retention Award Agreement (incorporated herein by reference to Exhibit 10.14 to our Form 10-K for the year ended February 2, 2013) (File No. 1-8897).
10.9	Form of Big Lots 2012 Long-Term Incentive Plan Restricted Stock Award Agreement for Nonemployee Directors (incorporated herein by reference to Exhibit 10.4 to our Form 8-K dated May 23, 2012) (File No. 1-8897).
10.10	Form of Big Lots 2012 Long-Term Incentive Plan Performance Share Units Award Agreement (incorporated herein by reference to Exhibit 10.9 to our Form 8-K dated April 29, 2013).
10.11	Form of Big Lots 2012 Long-Term Incentive Plan Performance Share Units Award Agreement (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated March 4, 2015).
10.12	Form of Big Lots 2012 Long-Term Incentive Plan Restricted Stock Units Award Agreement (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated March 4, 2015).
10.13	Form of Big Lots 2012 Long-Term Incentive Plan Deferral Election Form and Deferred Stock Units Award Agreement for Non-Employee Directors (incorporated herein by reference to Exhibit 10.13 to our Form 10-K for the year ended January 28, 2017).
10.14	Form of Big Lots 2017 Long-Term Incentive Plan (incorporated herein by reference to Appendix A to our definitive proxy statement on Schedule 14A relating to the 2017 Annual Meeting of Shareholders filed April 11, 2017).
10.15	Form of Big Lots 2017 Long-Term Incentive Plan Restricted Stock Units Award Agreement (incorporated herein by reference to Exhibit 10.1 to our Form 10-Q for the quarter ended April 29, 2017).
10.16	Form of Big Lots 2017 Long-Term Incentive Plan Performance Share Units Award Agreement (incorporated herein by reference to Exhibit 10.2 to our Form 10-Q for the quarter ended April 29, 2017).
10.17	Form of Big Lots 2017 Long-Term Incentive Plan Deferral Election Form and Deferred Stock Units Award for Non-Employee Directors (incorporated herein by reference to Exhibit 10.1 to our Form 10-Q for the quarter ended October 28, 2017).
10.18	Big Lots, Inc. Amended and Restated Director Stock Option Plan (incorporated by reference to Exhibit 10(c)(ii) to Consolidated (Delaware)'s Annual Report on Form 10-K for the fiscal year ended February 1, 1992) (File No. 1-8897).
10.19	First Amendment to Big Lots, Inc. Amended and Restated Director Stock Option Plan, effective August 20, 2002 (incorporated herein by reference to Exhibit 10(d) to our Form 10-Q for the quarter ended August 3, 2002 (File No. 1-8897)).
10.20	Amendment to Big Lots, Inc. Amended and Restated Director Stock Option Plan, effective March 5, 2008 (incorporated herein by reference to Exhibit 10.5 to our Form 10-Q for the quarter ended May 3, 2008) (File No. 1-8897).
10.21	Form of Option Award Agreement under the Big Lots, Inc. Amended and Restated Director Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated September 9, 2004) (File No. 1-8897).
10.22	Big Lots 2006 Bonus Plan, as amended and restated effective May 29, 2014 (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated May 29, 2014).
10.23	Big Lots Savings Plan (incorporated herein by reference to Exhibit 10.8 to our Form 10-K for the year ended January 29, 2005) (File No. 1-8897).
10.24	Big Lots Supplemental Savings Plan, as amended and restated effective December 31, 2015 (incorporated herein by reference to Exhibit 10.25 to our Form 10-K for the year ended January 30, 2016).
10.25	Big Lots Executive Benefit Plan (incorporated herein by reference to Exhibit 10(m) to our Form 10-K for the year ended January 31, 2004) (File No. 1-8897).
10.26	First Amendment to Big Lots Executive Benefit Plan (incorporated herein by reference to Exhibit 10.11 to our Form 10-Q for the quarter ended November 1, 2008) (File No. 1-8897).
10.27	Executive Employment Agreement with David J. Campisi (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated March 17, 2015).
10.28	Second Amended and Restated Employment Agreement with Lisa M. Bachmann (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated April 29, 2013).

<u>Exhibit No.</u>	<u>Document</u>
10.29	Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.12 to our Form 10-Q for the quarter ended November 1, 2008) (File No. 1-8897).
10.30	Form of Executive Severance Agreement (incorporated herein by reference to Exhibit 10.13 to our Form 10-Q for the quarter ended November 1, 2008) (File No. 1-8897).
10.31	Form of Senior Executive Severance Agreement (incorporated herein by reference to Exhibit 10.14 to our Form 10-Q for the quarter ended November 1, 2008) (File No. 1-8897).
10.32	Big Lots Executive Severance Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated August 28, 2014).
10.33	Form of Big Lots Executive Severance Plan Acknowledgment and Agreement (incorporated by reference to Exhibit 10.2 to our Form 8-K dated August 28, 2014).
10.34	Credit Agreement among Big Lots, Inc., Big Lots Stores, Inc. and Big Lots Canada, Inc., as borrowers, the Guarantors named therein, and the Banks named therein (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated July 22, 2011) (File No. 1-8897).
10.35	First Amendment to Credit Agreement among Big Lots, Inc., Big Lots Stores, Inc. and Big Lots Canada, Inc., as borrowers, the Guarantors named therein, and the Banks named therein (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated May 30, 2013).
10.36	Second Amendment to Credit Agreement among Big Lots, Inc., Big Lots Stores, Inc., as borrowers, the Guarantors named therein, and the Banks named therein (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated May 28, 2015).
10.37	Security Agreement between Big Lots Stores, Inc. and Big Lots Capital, Inc. (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated October 29, 2004) (File No. 1-8897).
10.38	Stock Purchase Agreement between KB Acquisition Corporation and Consolidated Stores Corporation (incorporated herein by reference to Exhibit 2(a) to our Form 10-Q for the quarter ended October 28, 2000) (File No. 1-8897).
10.39	Acquisition Agreement between Big Lots, Inc. and Liquidation World Inc. (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated May 26, 2011) (File No. 1-8897).
10.40*	AVDC Participation Agreement
10.41*	AVDC Lease Agreement (Real Property)
10.42*	AVDC Construction Agency Agreement
21*	Subsidiaries.
23*	Consent of Deloitte & Touche LLP.
24*	Power of Attorney for Jeffrey P. Berger, James R. Chambers, Marla C. Gottschalk, Cynthia T. Jamison, Philip E. Mallott, Nancy A. Reardon, Wendy L. Schoppert, and Russell E. Solt.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	XBRL Instance Document.

## Item 16. Form 10-K Summary

None.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 3<sup>rd</sup> day of April 2018.

### BIG LOTS, INC.

By: /s/ Timothy A. Johnson

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Timothy A. Johnson

*Executive Vice President, Chief Administrative Officer  
and Chief Financial Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 3<sup>rd</sup> day of April 2018.

By: /s/ Lisa M. Bachmann

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Lisa M. Bachmann

*Executive Vice President, Chief Merchandising and  
Operating Officer*

(Principal Executive Officer)

/s/ Timothy A. Johnson

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Timothy A. Johnson

*Executive Vice President, Chief Administrative Officer  
and Chief Financial Officer*

(Principal Executive Officer, Principal Financial Officer,  
Principal Accounting Officer and Duly Authorized  
Officer)

/s/ Jeffrey P. Berger \*

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Jeffrey P. Berger

Director

/s/ Philip E. Mallott \*

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Philip E. Mallott

Director

/s/ James R. Chambers \*

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James R. Chambers

Director

/s/ Nancy A. Reardon \*

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Nancy A. Reardon

Director

/s/ Marla C. Gottschalk \*

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Marla C. Gottschalk

Director

/s/ Wendy L. Schoppert \*

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Wendy L. Schoppert

Director

/s/ Cynthia T. Jamison \*

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Cynthia T. Jamison

Director

/s/ Russell E. Solt \*

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Russell E. Solt

Director

\* The above named Directors of the Registrant execute this report by Ronald A. Robins, Jr., their attorney-in-fact, pursuant to the power of attorney executed by the above-named Directors all in the capacities indicated and on the 7<sup>th</sup> day of March 2018, and filed herewith.

By: /s/ Ronald A. Robins, Jr.

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Ronald A. Robins, Jr.

*Attorney-in-Fact*

## SUBSIDIARIES

<u>Name</u>	<u>Jurisdiction</u>
Big Lots Capital, Inc.	OH
Big Lots F&S, Inc.	OH
Big Lots Online LLC	OH
Big Lots Stores, Inc.	OH
BLSI Property, LLC	DE
Capital Retail Systems, Inc.	OH
Closeout Distribution, Inc.	PA
Consolidated Property Holdings, Inc.	NV
CSC Distribution, Inc.	AL
C.S. Ross Company	OH
Durant DC, LLC	OH
Great Basin LLC	DE
Industrial Products of New England, Inc.	ME
Mac Frugal's Bargains Close-outs Inc.	DE
Midwestern Home Products, Inc.	DE
PNS Stores, Inc.	CA
Sahara LLC	DE
Sonoran LLC	DE
Tool and Supply Company of New England, Inc.	DE
West Coast Liquidators, Inc.	CA
Barn Acquisition Corporation	DE
Fashion Barn, Inc.	NY
Fashion Barn of Oklahoma, Inc.	OK
Fashion Bonanza, Inc.	NY
Midwestern Home Products Company, Ltd.	OH
Rogers Fashion Industries, Inc.	NY
SS Investments Corporation	DE
BLC LLC	DE
Liquidation Services, Inc.	DE
Liquidation World U.S.A. Holding Corp.	DE
Liquidation World U.S.A Inc.	DE
LQW Traders Inc.	DE
North American Solutions, Inc.	DE
Talon Wholesale, Inc.	DE
Big Lots eCommerce LLC	OH
AVDC, Inc.	OH

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements listed below on Form S-8 of our reports dated April 3, 2018, relating to the consolidated financial statements of Big Lots, Inc. and subsidiaries (the “Company”), and the effectiveness of the Company’s internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended February 3, 2018.

- 1) Post-Effective Amendment No. 1 to Registration Statement No. 33-42502 on Form S-8 pertaining to Big Lots, Inc. Director Stock Option Plan;
- 2) Post-Effective Amendment No. 1 to Registration Statement No. 33-42692 on Form S-8 pertaining to Big Lots, Inc. Supplemental Savings Plan;
- 3) Post-Effective Amendment No. 2 to Registration Statement No. 33-19309 on Form S-8 pertaining to Big Lots, Inc. Savings Plan;
- 4) Post-Effective Amendment No. 1 to Registration Statement No. 333-32063 on Form S-8 pertaining to Big Lots, Inc. 1996 Performance Incentive Plan;
- 5) Registration Statement No. 333-140181 on Form S-8 pertaining to the Big Lots 2005 Long-Term Incentive Plan;
- 6) Registration Statement No. 333-152481 on Form S-8 pertaining to the Big Lots 2005 Long-Term Incentive Plan;
- 7) Registration Statement No. 333-172592 on Form S-8 pertaining to the Big Lots 2005 Long-Term Incentive Plan;
- 8) Registration Statement No. 333-179836 on Form S-8 pertaining to the Big Lots 2005 Long-Term Incentive Plan;
- 9) Registration Statement No. 333-181619 on Form S-8 pertaining to the Big Lots 2012 Long-Term Incentive Plan; and
- 10) Registration Statement No. 333-218262 on Form S-8 pertaining to the Big Lots 2017 Long-Term Incentive Plan;

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio

April 3, 2018

## POWER OF ATTORNEY

Each director of Big Lots, Inc. (the "Company") whose signature appears below hereby appoints Ronald A. Robins, Jr. as the undersigned's attorney to sign, in the undersigned's name and behalf of each such director and in any and all capacities stated below, and to cause to be filed with the Securities and Exchange Commission (the "Commission"), the Company's Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended February 3, 2018, and likewise to sign and file with the Commission any and all amendments thereto, including any and all exhibits and other documents required to be included therewith, and the Company hereby also appoints Ronald A. Robins, Jr. as its attorney-in-fact with like authority to sign and file the Form 10-K and any amendments thereto granting to such attorneys-in-fact full power of substitution and revocation, and hereby ratifying all that any such attorneys-in-fact or their substitutes may do by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this instrument to be effective as of March 7, 2018.

<u>Signature</u>	<u>Title</u>
<u>/s/ Jeffrey P. Berger</u> Jeffrey P. Berger	Director
<u>/s/ James R. Chambers</u> James R. Chambers	Director
<u>/s/ Marla C. Gottschalk</u> Marla C. Gottschalk	Director
<u>/s/ Cynthia T. Jamison</u> Cynthia T. Jamison	Director
<u>/s/ Philip E. Mallott</u> Philip E. Mallott	Director
<u>/s/ Nancy A. Reardon</u> Nancy A. Reardon	Director
<u>/s/ Wendy L. Schoppert</u> Wendy L. Schoppert	Director
<u>/s/ Russell E. Solt</u> Russell E. Solt	Director

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

I, Lisa M. Bachmann, certify that:

1. I have reviewed this annual report on Form 10-K of Big Lots, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 3, 2018

By: /s/ Lisa M. Bachmann

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Lisa M. Bachmann

*Executive Vice President, Chief Merchandising  
and Operating Officer*

(Principal Executive Officer)



**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy A. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K of Big Lots, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 3, 2018

By: /s/ Timothy A. Johnson

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Timothy A. Johnson

*Executive Vice President, Chief Administrative Officer  
and Chief Financial Officer*

(Principal Executive Officer and Principal Financial Officer)

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

This certification is provided pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and accompanies the annual report on Form 10-K (the "Report") for the year ended February 3, 2018, of Big Lots, Inc. (the "Company"). I, Lisa M. Bachmann, Executive Vice President, Chief Merchandising and Operating Officer of the Company, certify that:

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

Dated: April 3, 2018

By: /s/ Lisa M. Bachmann

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Lisa M. Bachmann

*Executive Vice President, Chief Merchandising  
and Operating Officer*

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

This certification is provided pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and accompanies the annual report on Form 10-K (the "Report") for the year ended February 3, 2018, of Big Lots, Inc. (the "Company"). I, Timothy A. Johnson, Executive Vice President, Chief Administrative Officer and Chief Financial Officer of the Company, certify that:

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

Dated: April 3, 2018

By: /s/ Timothy A. Johnson

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Timothy A. Johnson

*Executive Vice President, Chief Administrative Officer  
and Chief Financial Officer*

(Principal Executive Officer and Principal Financial Officer)

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## About Our Company

Headquartered in Columbus, Ohio, **Big Lots, Inc. (NYSE: BIG)** is a community retailer operating more than **1,400 BIG LOTS stores in 47 states**, dedicated to **friendly service, trustworthy value, and affordable solutions in every season and category – furniture, food, decor, and more. We exist to serve everyone like family, providing a better shopping experience for our customers, valuing and developing our associates, and creating growth for our shareholders. Big Lots supports the communities it serves through the Big Lots Foundation, a charitable organization focused on four areas of need: hunger, housing, healthcare, and education. For more information about the Company, visit [www.biglots.com](http://www.biglots.com).**

### NOTICE OF ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 9:00 a.m. EDT on Thursday, May 31, 2018, at our corporate headquarters, 4900 East Dublin Granville Road, Columbus, Ohio 43081. Whether or not you plan to attend, you are encouraged to vote as soon as possible. In accordance with the accompanying proxy statement, shareholders who attend the meeting may withdraw their proxies and vote in person if they so desire.



#### Transfer Agent & Registrar

Computershare  
P.O. Box 30170  
College Station, TX 77842  
877.581.5548  
(Within USA, US territories & Canada)  
781.575.2879  
(Outside USA, US territories & Canada)  
[computershare.com/investor](http://computershare.com/investor)

#### Investment Inquiries

Investor Relations Department  
4900 East Dublin Granville Road  
Columbus, Ohio 43081  
614.278.6622  
[Investor\\_Relations@biglots.com](mailto:Investor_Relations@biglots.com)

#### Independent Registered Public Accounting Firm

Deloitte & Touche LLP  
180 East Broad Street, Suite 1400  
Columbus, Ohio 43215

#### NYSE Trading Symbol

**BIG**  
**LISTED**  
**NYSE**

#### Telephone

614.278.6800

#### Website

[biglots.com](http://biglots.com)

#### Email

[talk2us@biglots.com](mailto:talk2us@biglots.com)



[biglots.com](http://biglots.com)