



**2018 ANNUAL REPORT**



**BIG LOTS!**

### **Who is Big Lots?**

Our **Mission** is simple... *We help people Live BIG and Save LOTS.*

Our **Vision** for the future... *Be the BIG difference for a better life by delivering unmatched value through surprise and delight, by being a “best places to work” culture, by rewarding shareholders with consistent growth and top tier returns, and by doing good as we do well.*

And our **Values** embody the essence of how we intend to work together at Big Lots... *Leading with our core customer Jennifer, treating all like a friend, succeeding together, and playing to win!*

## Dear Shareholders,

Let me begin by expressing how excited I am to be part of the Big Lots team. I'm an Ohio native, born and raised, and have known the Company my whole life.



Bruce K. Thorn  
President and CEO

Growing up, my mother used to take me shopping at our stores on a regular basis. She was always about making our lives better with new home décor, festive holiday celebrations, and treats and toys for life's special moments. So you can imagine how thrilled I am to have the opportunity to serve this great Company and our customers.

In recent months, we have invested a great deal of time as a Leadership Team working with some of the best retail consultants in the industry to develop a roadmap to transform our strategy and competitively position our business for long-term success. We're enhancing our strengths and working hard to identify, prioritize, and launch new initiatives to accelerate sales and bend the cost curve. Essentially, we're developing a three-year playbook on how to WIN in an ever-changing retail environment.

The first step in the process was defining our North Star — an internal aspiration that guides how we serve our customers and provides direction or a path for our teams to follow when making decisions. It identifies "our reason to exist," "where to play," and "how to win." In order to better answer these questions, we conducted extensive customer research to gain unique insights. The survey used a psychographic lens to put ourselves in the mind of Jennifer and better understand her perspective. Over 5,000 customers, or potential customers, participated and clarified for us "what we are known for," "where we get credit," and "where we do not get credit."

At a high level, we learned customers have a strong association with Big Lots when it comes to price, value, and treasure hunt ... with more emphasis on "the treasure" than "the hunt." There is an opportunity for us to more clearly shout value and our great prices while working to improve the quality of our product where it matters most. We verified our long-standing belief that we have a "right to play" in the Furniture, Home, and Seasonal categories. We also learned Jennifer has a stronger association with what we offer in Consumables than she does with our current Food assortment. These key insights present opportunities for us to gain market share in certain categories while adjusting other categories and balancing the critical need for customer traffic drivers to our stores. The research was also very clear we are getting credit and high marks for a better in-store experience with Store of the Future, and we have an opportunity to improve our accessibility as an omni-channel retailer.

The customer insights go much deeper than how we should operate or go to market. They have provided rich and actionable information to help us further define new Mission, Vision, and Values statements for the Company as well as critical elements of our Customer Value Proposition, or CVP.

- Our **Mission** is simple...*We help people Live BIG and Save LOTS.*
- Our **Vision** for the future...*Be the BIG difference for a better life by delivering unmatched value through surprise and delight, by being a “best places to work” culture, by rewarding shareholders with consistent growth and top tier returns, and by doing good as we do well.*
- And our **Values** embody the essence of how we intend to work together at Big Lots...*Leading with Jennifer, treating all like a friend, succeeding together, and playing to win!*

Utilizing our customer insights and building off our new Mission, Vision, and Values, we established the three critical elements of our new CVP which will serve as the anchor for our growth strategy: 1) be the authority on price & value, 2) increase accessibility of surprise & delight, and 3) grow home & life's occasions. Growing over the next three years will require significant focus and the need to act on some big choices. We've identified several key platforms designed to accentuate our CVP while providing Jennifer the accessibility she is looking for:

- First, grow Home as a destination leveraging our already strong product associations in Furniture, Seasonal, and Home Furnishings & Décor and further strengthening our position as a destination for all things home. These categories have represented over half of our sales and our largest comp sales growth in recent years, and we believe we have significant market share opportunities remaining. Our strategic acquisition of Broyhill®, a long-standing, iconic brand in the furniture industry, will be one of several catalysts to grow our offering in these categories, enhance our value proposition, elevate our quality perception, and increase the surprise and delight factor in our stores.
- The next platform is to drive increased traffic to our stores with enhanced product, price, and promotion. This will likely mean shifting space

from less productive elements of our assortment to either categories with higher sales productivity where we have the “right to play,” or potentially introducing new merchandise categories which are growing in the marketplace and potentially better resonate with Jennifer.

- The third platform focuses on life's occasions or events by delivering the treasure hunt through newness and excitement for distinct periods in time. This could involve new or expanded merchandise categories, changes in placement or presentation in store, a different marketing approach or advertising cadence, or all of the above.

In terms of accessibility, we understand the need to make it easier for Jennifer, and new customers, to pick Big Lots. We see an expanded opportunity for store growth encompassing new markets as well as relocations. Based on customer density studies and current market conditions, we believe we're ready to grow intelligently as locations become available in the ever-changing retail landscape.

Our Store of the Future concept focuses more on the in-store experience and merchandise presentation and placement in our stores. However, to the extent customers have not shopped us recently because of how our stores used to present, this new format will increase access or potentially get us back on her shopping list by giving customers the treasure hunt they want... accessible, yet fun, easy, and exciting.

Our online business presents an opportunity to expand access by re-engaging with lapsed customers, extending aisles, and helping them shop on their terms when convenient. Later this summer, we will launch Buy Online Pickup In Store, or BOPIS, in our fleet of stores in an effort to appeal to our busiest customers. The launch will make available thousands of additional SKUs on our website to grow accessibility, increase our price and value perception, and enhance the surprise and delight factor along with customer satisfaction. I am very excited about this new opportunity to leverage our brick and mortar locations and our friendly, hard-working store associates.





### Fund the Journey

In order to fund all of these tremendous growth levers, we need to unlock value and lower our overall cost structure. Over the past several months, we conducted a holistic assessment looking at every single cost element of our business, including cost of goods sold, store labor, organization size and structure, supply chain, and all our indirect expenses. It was not just a top-down exercise, but we triangulated the opportunity with external and internal benchmarking and select detailed, bottom-up deep dives for understanding. We see the need to operate the business differently going forward in order to support improving our price/value proposition, enhancing customer traffic drivers, and increasing the surprise and delight factor in stores. Through our efforts, we identified a \$100 million cost reduction opportunity and established targets for each of the next three years... 2019, 2020, and 2021. We are already seeing the benefits of this effort in our results in certain areas of our business, and we expect some cost-saving opportunities will need investment first before seeing efficiencies.

### Best Places to Work Culture

Throughout my career, I have long believed **people** are the greatest asset of a company, and our research clearly indicates Big Lots is known for friendly associates. Our goal is to build upon this strength and create an environment, recognized throughout the industry, as having a “best places to work” culture. This can be accomplished, in part, by living day-to-day our new Values of leading with Jennifer, treating all like a friend, succeeding together, and playing to win! In addition, it is critical to have the right leaders with the right skill sets and focus. We recently reorganized our executive structure, added new talent to the organization, and realigned roles and responsibilities to capture synergies and improve the opportunity for professional development and succession planning.

### Doing Good as we Do Well

Doing the right thing is at the heart of our culture, and giving back to the communities we serve —

nationally, locally, and personally—is important. The Big Lots Foundation focuses on Healthcare, Housing, Hunger, and Education by supporting well-known national organizations including Nationwide Children’s Hospital, YWCA, Feeding America, the American Heart Association, and the National Veterans Memorial and Museum. We serve locally by investing in communities near our stores, and personally through point-of-sale donation campaigns. In addition, our associates are encouraged to volunteer, and in the last year alone contributed over 7,500 hours to the causes most important to them.

### Our Shareholders

For our shareholders, we understand it is your money fueling our enterprise and it is your trust and expectation we will deliver consistent growth and top-tier returns. Big Lots has a long history of generating excess cash and returning it to you through our capital allocation strategy. In the years to come, we expect this to continue, balanced with investment in our operations and strategies to support future growth.

As I look forward, I’m excited about the future of the Company. We have a lot of work ahead of us, and we all know it will not be easy. Getting the right strategy and transformation plan put in place is the first critical step in this journey as we look to invest in growth, bend the cost curve, and deliver great value to our customers, our associates, and our shareholders.

On behalf of the entire Big Lots organization, our Board of Directors, and all our associates, I thank you for your support.

Sincerely,



Bruce K. Thorn  
President and CEO

Our Mission  
is simple...  
We help people  
Live BIG and  
Save LOTS.



# Financial Highlights (Unaudited Adjusted Results)

(\$ in thousands, except per share amounts and sales per selling square foot)

|  | Fiscal Year |             |             |
|--|-------------|-------------|-------------|
|  | 2018        | 2017        | 2016        |
| <b>Earnings Data (a)</b>                                   |             |             |             |
| Net sales (b)  | \$5,238,105 | \$5,264,362 | \$5,193,995 |
| Net sales (decrease) increase                              | (0.5)%      | 1.4%        | 0.1%        |
| Net income (c)   | \$ 165,638  | \$ 192,498  | \$ 167,207  |
| Income increase (c)  | (14.0)%     | 15.1%       | 9.0%        |
| Earnings per share - diluted (c)                           | \$ 4.04     | \$ 4.45     | \$ 3.64     |
| Earnings per share - diluted (decrease) increase (c)       | (9.2)%      | 22.3%       | 20.9%       |
| Dividends declared per share                               | \$ 1.20     | \$ 1.00     | \$ 0.84     |
| Average diluted common shares outstanding (000's)          | 40,962      | 43,300      | 45,974      |
| Gross margin - % of net sales                              | 40.5%       | 40.7%       | 40.4%       |
| Selling and administrative expenses - % of net sales (c)   | 33.8%       | 32.8%       | 32.9%       |
| Depreciation expense - % of net sales                      | 2.4%        | 2.2%        | 2.3%        |
| Operating profit - % of net sales (c)                      | 4.4%        | 5.7%        | 5.2%        |
| Non-operating expense, including interest - % of net sales | (0.2)%      | (0.1)%      | (0.1)%      |
| Net income - % of net sales (c)                            | 3.2%        | 3.7%        | 3.2%        |

## Balance Sheet Data and Financial Ratios

|   |            |            |            |
|---|------------|------------|------------|
| Cash and cash equivalents               | \$ 46,034  | \$ 51,176  | \$ 51,164  |
| Inventories                             | 969,561    | 872,790    | 858,689    |
| Property and equipment - net            | 822,338    | 565,977    | 525,851    |
| Total assets                            | 2,023,347  | 1,651,726  | 1,607,707  |
| Borrowings under bank credit facility   | 374,100    | 199,800    | 106,400    |
| Shareholders' equity                    | 693,041    | 669,587    | 650,630    |
| Working capital                         | \$ 489,443 | \$ 432,365 | \$ 315,784 |
| Current ratio                           | 1.8        | 1.7        | 1.5        |
| Inventory turnover                      | 3.4        | 3.5        | 3.5        |
| Bank borrowings to total capitalization | 35.1%      | 23.0%      | 14.1%      |
| Return on assets (a) (c)                | 9.0%       | 11.8%      | 10.3%      |
| Return on invested capital (a) (c)      | 17.1%      | 23.7%      | 21.7%      |

## Cash Flow Data (a)

|   |              |              |              |
|---|--------------|--------------|--------------|
| Cash provided by operating activities (d) | \$ 234,060   | \$ 250,368   | \$ 311,925   |
| Capital expenditures                      | (232,402)    | (142,745)    | (89,782)     |
| Cash flow (e)                             | 1,658        | 107,623      | 222,143      |
| Cash paid for dividends                   | (50,608)     | (44,671)     | (38,466)     |
| Cash used in share repurchase programs    | \$ (100,000) | \$ (150,000) | \$ (250,000) |

## Store Data

|  |          |          |          |
|--|----------|----------|----------|
| Stores open at end of the fiscal year    | 1,401    | 1,416    | 1,432    |
| Comparable store sales increase (a)      | 1.2%     | 0.4%     | 0.9%     |
| Average sales per store (a) (b)          | \$ 3,719 | \$ 3,697 | \$ 3,606 |
| Gross square footage (000's)             | 44,500   | 44,638   | 44,570   |
| Selling square footage (000's)           | 31,217   | 31,399   | 31,519   |
| Decrease in selling square footage       | (0.6)%   | (0.4)%   | (0.8)%   |
| Average selling square footage per store | 22,282   | 22,175   | 22,011   |

(a) The results for fiscal years 2018 and 2016 include 52 weeks, while the results for fiscal year 2017 include 53 weeks.

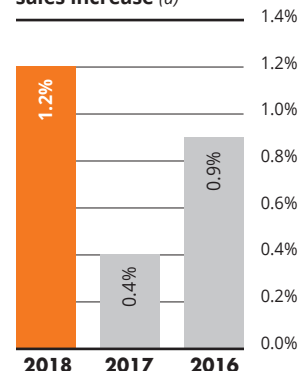
(b) During 2018, we adopted ASU 2014-09 related to the recognition and presentation of revenue from contract with customers. As such, we restated net sales in 2017 and 2016 to reflect the adoption of this accounting standard.

(c) This item is shown excluding the impact of certain items for fiscal years 2018, 2017 and 2016. A reconciliation of the difference between GAAP and the non-GAAP financial measures presented in this table for fiscal years 2018, 2017 and 2016 is shown on the following page.

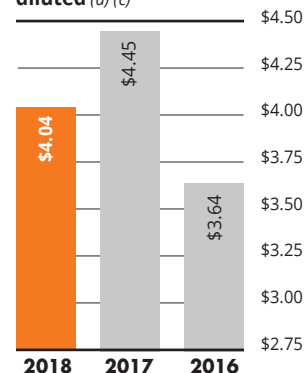
(d) Includes depreciation and amortization of \$114,025, \$106,004, and \$108,315 for fiscal years 2018, 2017, and 2016, respectively.

(e) Cash flow is calculated as cash provided by operating activities less capital expenditures.

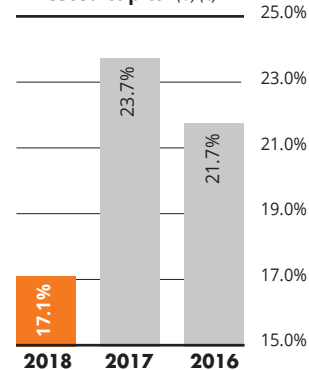
## Comparable store sales increase (a)



## Earnings per share - diluted (a) (c)



## Return on invested capital (a) (c)



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 period 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 2018.

### Fiscal 2018

The 2018 Unaudited Adjusted Results reflect lower selling and administrative expense as a result of the adjustment to exclude costs associated with our former CEO's retirement and costs associated with a shareholder litigation matter, as described and reconciled below (\$ in thousands):

#### Adjustment to Exclude Former CEO Retirement Costs

In the first quarter of fiscal 2018, we recognized a total of \$7,018 (\$6,123, net of tax) for costs associated with the retirement of our former CEO, which resulted in an increase of selling and administrative expenses.

#### Adjustment to exclude Shareholder Litigation Matter

In the first quarter of fiscal 2018, we recognized a \$3,500 charge (\$2,621, net of tax) for costs associated with the settlement of a shareholder litigation matter, which resulted in an increase of selling and administrative expenses.

| Fiscal 2018<br>(\$ in thousands, except per share amounts) | Reported (GAAP) |       | Adjustment to exclude CEO retirement costs | Adjustment to exclude shareholder litigation matter | Unaudited Adjusted Results (non-GAAP) |       |
|--|-----------------|-------|--|---|---------------------------------------|-------|
| Selling and administrative expenses                        | \$ 1,778,416    | 34.0% | \$ (7,018)                                 | \$ (3,500)  | \$ 1,767,898                          | 33.8% |
| Operating profit   | 218,509         | 4.2   | 7,018                                      | 3,500   | 229,027                               | 4.4   |
| Income tax expense   | 50,719          | 1.0   | 895  | 879   | 52,493                                | 1.0   |
| Net income   | \$ 156,894      | 3.0%  | \$ 6,123                                   | \$ 2,621  | \$ 165,638                            | 3.2%  |
| Earnings per common share - diluted                        | \$ 3.83         |       | \$ 0.15                                    | \$ 0.06   | \$ 4.04                               |       |

### 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 2017<br>(\$ in thousands, except per share amounts) | Reported (GAAP) |       | Adjustment to exclude gain on insurance recoveries | Impact on deferred taxes resulting from U.S. tax reform | Unaudited Adjusted Results (non-GAAP) |       |
|--|-----------------|-------|--|---|---------------------------------------|-------|
| 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                               |       |

### 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 2016<br>(\$ in thousands, except per share amounts) | Reported (GAAP) |       | Adjustment to exclude pension costs | Gain on sale of real estate | Unaudited Adjusted Results (non-GAAP) |       |
|--|-----------------|-------|-------------------------------------|-----------------------------|---------------------------------------|-------|
| Selling and administrative expenses                        | \$ 1,730,956    | 33.3% | \$ (27,766)                         | \$ 3,823                    | \$ 1,707,013                          | 32.9% |
| 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                               |       |

## 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

**James R. Chambers**

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

**Sebastian J. DiGrande**

Executive Vice President of Strategy &  
Chief Customer Officer  
Gap, Inc.

**Marla C. Gottschalk**

former Chief Executive Officer  
Pampered Chef, Ltd.

**Cynthia T. Jamison**

former Chief Financial Officer  
AquaSpy, Inc.

**Christopher J. McCormick**

former President & Chief Executive Officer  
L.L. Bean

**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

**Bruce K. Thorn**

President & Chief Executive Officer  
Big Lots, Inc.

### President & Chief Executive Officer

**Bruce K. Thorn**

### Executive Vice Presidents

**Lisa M. Bachmann**

Chief Merchandising &  
Operating Officer

**Timothy A. Johnson**

Chief Administrative Officer &  
Chief Financial Officer

**Michael A. Schlonsky**

Human Resources

### Senior Vice Presidents

**Gene E. Burt, II**

Supply Chain

**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 &  
National Team Leader

**Ronald A. Robins, Jr.**

General Counsel &  
Corporate Secretary

**Paul A. Schroeder**

Controller & Treasurer

**Stewart W. Wenerstrom**

Chief Technology Officer

**Martha A. Withers-Hall**

General Merchandise Manager



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

April 16, 2019

Dear Big Lots' Shareholder:

We cordially invite you to attend the 2019 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 30, 2019, 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*

BRUCE K. THORN  
*President and Chief Executive Officer*







## NOTICE OF 2019 ANNUAL MEETING OF SHAREHOLDERS

**Thursday, May 30, 2019**

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

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

We are pleased to invite you to the 2019 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 30, 2019, beginning at 9:00 a.m., Eastern Time, for the following purposes:

1. To elect as directors the nine 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 2019; 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, 2019, 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 16, 2019

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 2019 Annual Meeting of Shareholders to be held on May 30, 2019 (“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 16, 2019, we began mailing to our shareholders of record at the close of business on April 2, 2019 a Notice of Internet Availability of Proxy Materials 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 2, 2019 (“fiscal 2018”).

## ABOUT THE ANNUAL MEETING

### Purpose of the Annual Meeting

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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 nine 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 1, 2020 (“fiscal 2019”); and
- (4) transact such other business as may properly come before the Annual Meeting.

### Shareholder Voting Rights

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Only those shareholders of record at the close of business on April 2, 2019, 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 39,898,347 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

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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

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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 of Proxy Materials that provides instructions for accessing our proxy materials on the Internet was mailed directly to registered shareholders. The Notice of Internet Availability of Proxy Materials 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 of Proxy Materials for requesting such paper or email 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 of Proxy Materials (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

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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 and Revoke Your Vote

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### Registered Holders

After receiving the Notice of Internet Availability of Proxy Materials (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 29, 2019 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 of Proxy Materials (or proxy card, if applicable). If, after receiving the Notice of Internet Availability of Proxy Materials, you request (via toll-free telephone number, e-mail or online) that we send you paper or email 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 29, 2019 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

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SEC rules allow multiple shareholders residing at the same address the convenience of receiving a single copy of the Notice of Internet Availability of Proxy Materials (or the Annual Report to Shareholders and Proxy Statement, if requested) if they consent to do so (we refer to this process as “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 Notice of Internet Availability of Proxy Materials or, if requested, the Annual Report to Shareholders and Proxy Statement. Upon request, we will promptly deliver a separate copy of the Annual Report to Shareholders and Proxy Statement or Notice of Internet Availability of Proxy Materials, 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 and Proxy Statement or Notice of Internet Availability of Proxy Materials, as applicable.

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

## Board’s Recommendations

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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 the director nominees identified in 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 2019 (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

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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.

### **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.

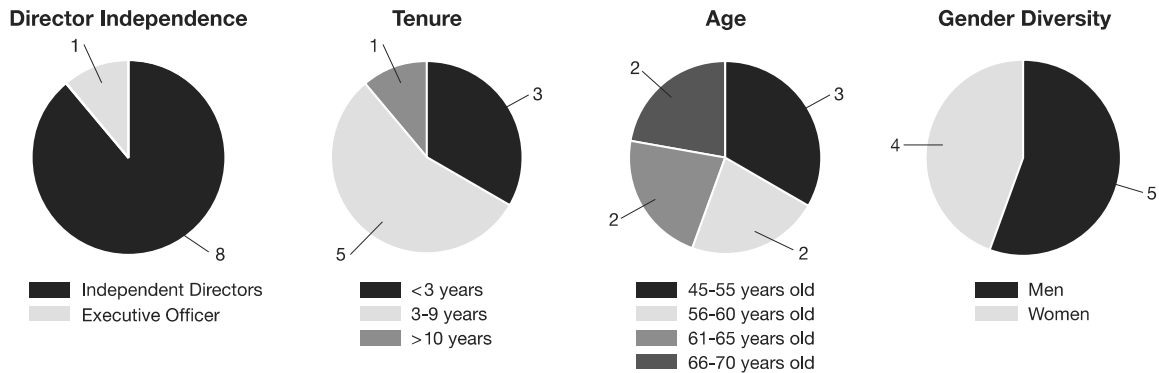
### **Other Matters**

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

Set forth below is certain information related to the nominees.



### Summary of Director Nominee Core Experiences and Skills

*Our Board possesses a deep and broad set of skills and experiences that facilitate strong oversight and strategic direction for a leading retailer.* The following chart summarizes the competencies of each director nominee to be represented on our Board.

| EXPERIENCE / SKILLS        | Berger | Chambers | DiGrande | Gottschalk | Jamison | McCormick | Reardon | Schoppert | Thorn |
|----------------------------|--------|----------|----------|------------|---------|-----------|---------|-----------|-------|
| Retail Experience          | ✓      | ✓        | ✓        | ✓          | ✓       | ✓         | ✓       | ✓         | ✓     |
| EComm Experience           |        | ✓        | ✓        | ✓          | ✓       | ✓         |         | ✓         | ✓     |
| CEO/CFO/CHRO/CCO           | ✓      | ✓        | ✓        | ✓          | ✓       | ✓         | ✓       | ✓         | ✓     |
| Regulatory Compliance      | ✓      | ✓        | ✓        | ✓          | ✓       | ✓         | ✓       | ✓         | ✓     |
| Financial/Accounting       | ✓      | ✓        | ✓        | ✓          | ✓       | ✓         | ✓       | ✓         | ✓     |
| Corporate Governance       | ✓      | ✓        | ✓        | ✓          | ✓       | ✓         | ✓       | ✓         | ✓     |
| Other Public Company Board | ✓      | ✓        |          | ✓          | ✓       | ✓         | ✓       | ✓         |       |

The lack of a "✓" for a particular item does not mean that the director does not possess that qualification, characteristic, skill or experience. Each of our Board members have experience and/or skills in the enumerated areas, however, the ✓ is designated to indicate that a director has a particular strength in that area.



Age: 69  
 Director since: 2006  
 Committees:  
 • Compensation  
 • Nominating / Corporate Governance

**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: 61  
 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, his extensive leadership experience as a chief executive officer, his 20-year track record in general management 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 committee and the risk and compliance committee.



Age: 51  
 Director since: 2018  
 Committees:  
 • Audit  
 • Nominating /Corporate Governance

**SEBASTIAN J. DIGRANDE**

Mr. DiGrande is the Executive Vice President of Strategy and Chief Customer Officer for Gap Inc. (clothing and accessories retailer) where he leads the Company’s strategy, consumer and market insights, customer data and analytics, digital and customer marketing, payments, loyalty, and franchise teams. Mr. DiGrande joined Gap Inc. in May 2016 after a 20 year career at The Boston Consulting Group (“BCG”) where he was a Senior Partner and Managing Director. He was also a leader in BCG’s Technology, Marketing and Digital Innovation efforts.

**Qualifications:** Mr. DiGrande’s qualifications to serve on the Board include his extensive experience in senior management roles in strategy, analytics, marketing and technology, his extensive consulting background and his qualification as an “audit committee financial expert,” as defined by applicable SEC rules.



Age: 58  
Director since: 2015  
Committees:  
• Audit (Chair)  
• Compensation

### **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 extensive leadership experience as a chief executive officer, her expertise in the food industry 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: 59  
Director since: 2015  
Committees:  
• Audit  
• Nominating /Corporate Governance (Chair)

### **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 (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 corporate governance and nominating committee.



**CHRISTOPHER J. MCCORMICK**

Mr. McCormick is the former President and Chief Executive Officer of L.L. Bean, Inc. (clothing and outdoor recreation equipment retailer). He joined L.L. Bean, Inc. in 1983 and held a number of leadership positions in Advertising and Marketing, prior to his tenure as President and Chief Executive Officer from 2001 until March 2016.

**Qualifications:** Mr. McCormick’s qualifications to serve on the Board include his extensive leadership experience as a chief executive officer of a retail company, his service on the boards of other public companies and his qualification as an “audit committee financial expert,” as defined by applicable SEC Rules.

**Other Directorships:** Sun Life Financial, Inc. (financial services company), where he is a member of the compensation committee and nominating corporate governance committee, and Levi Strauss & Co. (clothing retailer), where he is a member of the audit committee.

Age: 62  
Director since: 2018  
Committees:  
• Audit  
• Compensation



**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.

**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 chairs the compensation committee.

Age: 66  
Director since: 2015  
Committees:  
• Compensation (Chair)  
• Nominating /Corporate Governance



**WENDY L. SCHOPPERT**

Ms. Schoppert is the former Executive Vice President and Chief Financial Officer of Sleep Number Corporation (bedding retailer and manufacturer), where she also served as Chief Information Officer and led Marketing, Digital, International, and New Channel Development.

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 U.S. 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. Ms. Schoppert previously served as a director at Gaia, Inc. (provider of digital video streaming services) where she served on the audit committee and compensation committee.

**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 extensive retail experience across finance, information technology, digital, and marketing, 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 and finance & risk management committee, and Bremer Financial Corporation (a financial services firm), where she chairs the audit committee and serves on the compensation committee.

Age: 52  
Director since: 2015  
Committees:  
• Audit  
• Nominating /Corporate Governance





Age: 51  
 Director since: 2018  
 Committees:  
 None

**BRUCE K. THORN**

Mr. Thorn is our President and Chief Executive Officer. Before joining Big Lots in September 2018, he served as President and Chief Operating Officer of Tailored Brands, Inc. (a leading specialty retailer of men’s tailored clothing and formalwear). Mr. Thorn also held various enterprise-level roles with PetSmart, Inc. (a pet supply retailer), most recently as Executive Vice President, Store Operations, Services and Supply Chain, as well as leadership positions with Gap, Inc., Cintas Corp, LESCO, Inc. and The United States Army.

**Qualifications:** Mr. Thorn’s qualifications to serve on the Board include his day-to-day leadership as President and Chief Executive Officer of Big Lots, strong leadership skills, proven management capabilities and more than 20 years of diverse retail experience.

**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>   |   |
|--|---|
| • <i>Eight of our nine current directors are independent</i>               | • <i>4 of our 8 independent directors are women</i>                     |
| • <i>Annual election of all directors and Majority Voting Standard</i>     | • <i>Annual shareholder engagement</i>                                  |
| • <i>Proxy Access for our shareholders</i>                                 | • <i>We have a non-executive chairman</i>                               |
| • <i>Executive session of non-employee directors at all board meetings</i> | • <i>Mandatory Board Retirement at age 72</i>                           |
| • <i>All committees composed of independent directors</i>                  | • <i>Limit of 4 public company directorships Board members may hold</i> |
| • <i>Annual board and committee self-evaluations</i>                       | • <i>Director orientation and continuing education</i>                  |

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

The Board is currently comprised of the individuals identified in Proposal One. Other than Mr. Thorn, our Chief Executive Officer (“CEO”) and President, each of the director nominees is an independent (as defined by the applicable NYSE rules) non-employee director (“non-employee directors”). Mr. Chambers, a non-employee 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 works with management to plan 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 2018**

The Board held seven meetings during fiscal 2018. During fiscal 2018, 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). Except for Mr. Thorn who did not stand for election at our 2018 annual meeting of shareholders, all of our directors attended our 2018 annual meeting of shareholders, as required by our Corporate Governance Guidelines. In addition, the non-employee directors met in executive session at each of the Board's meetings.

## **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 in connection with a derivative shareholder lawsuit that has since been resolved and, in fiscal 2018, the Board formed a non-standing Special Committee to address issues related to the medical leave and subsequent retirement of our former CEO. Both the Special Litigation Committee and the Special Committee dissolved in fiscal 2018.

### ***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. DiGrande and McCormick and Msrs. 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 eleven times during fiscal 2018.

### ***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 executive 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 reporting to our CEO.

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 Compensation 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 four times during fiscal 2018.

### ***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) developing and recommending to the Board appropriate criteria for determining director independence;
- (4) in coordination with the Compensation Committee, monitoring issues associated with CEO succession planning and management development;
- (5) exercising oversight of the evaluation of the Board and CEO; and
- (6) 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 five times during fiscal 2018.

### ***Special Litigation Committee and Special 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 was composed of three members, each of whom was a director that was not a party to any of the derivative actions and was not a member of the Board until after the derivatives actions arose. The Special Litigation Committee was dissolved in fiscal 2018 following the resolution of the derivative actions. The Special Committee was created in fiscal 2018 to oversee matters related to the medical leave and subsequent retirement of Mr. Campisi and the search for the Company's next President and CEO. The Special Committee was dissolved in fiscal 2018 following the hiring of Mr. Thorn.

### **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 Nominating / Corporate Governance Committee and has not adopted a formal policy with regard to the consideration of diversity in identifying director nominees, the Nominating / Corporate Governance 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. In fiscal 2018, the Nominating / Corporate Governance Committee retained Spencer Stuart to assist it in connection with the search process that identified Mr. DiGrande and Mr. McCormick, whom the Nominating / Corporate Governance Committee recommended for nomination as Board members. The Nominating / Corporate Governance Committee did not retain any consultant or search firm in connection with the selection of the Board's nominees for election as directors at the Annual Meeting, as they are all currently members of the Board.

### **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, with the exception of Mr. Thorn, 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 other than Mr. Thorn 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) in which Big Lots or a subsidiary thereof is, was or will be a participant:

- (1) involving more than \$120,000; and
- (2) in which 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 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) our 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 2018 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, cyber-security matters, 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.

### **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 2018, Messrs. Berger, Mallott, McCormick, and Solt and Msrs. 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 2018, 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 2018, 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 unit award.



## **Retainers and Charitable Contributions**

During fiscal 2018, Messrs. Berger, Chambers, DiGrande, Mallott, McCormick and Solt and Msrs. 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. Thorn and Mr. Campisi in fiscal 2018, they did not qualify as non-employee directors and they did not receive compensation for their services as a director. The compensation received by Mr. Thorn and 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. For fiscal 2018, the annual retainers we paid to non-employee directors consisted of: (1) an annual retainer of \$85,000 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 chair of the Audit Committee; (4) an additional annual retainer of \$30,000 for the chair of the Special Litigation Committee; (5) an additional annual retainer of \$25,000 for the chair of the Compensation Committee; (6) an additional annual retainer of \$20,000 for the chair of the Nominating / Corporate Governance Committee; (7) an additional annual retainer of \$20,000 for each other member of Special Litigation Committee; (8) an additional annual retainer of \$15,000 for each other member of the Audit Committee; (9) an additional annual retainer of \$12,500 for each other member of the Compensation Committee; (10) an additional annual retainer of \$10,000 for each other member of the Nominating / Corporate Governance Committee; (11) an additional annual retainer of \$45,000 for the chair of the Special Committee; and (12) an additional annual retainer of \$30,000 for each other member of the Special Committee. 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 June 2018, our nonexecutive chair received a restricted stock unit award having a grant date fair value equal to approximately \$200,000 (4,950 common shares) and our other non-employee directors received a restricted stock unit award having a grant date fair value equal to approximately \$135,000 (3,341 common shares). In July 2018, in connection with their appointment to the Board, Mr. DiGrande and Mr. McCormick received a restricted stock unit award having a grant date fair value equal to approximately \$135,000 (3,225 common shares). The restricted stock unit awards were made under the terms of the Big Lots 2017 Long-Term Incentive Plan ("2017 LTIP") and 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, 2017 for awards granted in 2018) 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 2018

The following table summarizes the total compensation for fiscal 2018 for each of our non-employee directors.

| Name<br>(a)                | Fees<br>Earned<br>or<br>Paid in<br>Cash<br>(\$)<br>(b) | Stock<br>Awards<br>(\$) <sup>(1)(2)</sup><br>(c) | Option<br>Awards<br>(\$)<br>(d) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$)<br>(e) | Change in<br>Pension<br>Value and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$)<br>(f) | All<br>Other<br>Compensation<br>(\$) <sup>(3)</sup><br>(g) | Total<br>(\$)<br>(h) |
|----------------------------|--|--|---------------------------------|---|--|--|----------------------|
| Mr. Berger                 | 107,500  | 134,976  | -                               | -   | -  | 36,500   | 278,976              |
| Mr. Chambers               | 192,500  | 199,980  | -                               | -   | -  | 35,000   | 427,480              |
| Mr. DiGrande               | 82,500   | 134,966  | -                               | -   | -  | 30,000   | 247,466              |
| Ms. Gottschalk             | 162,470  | 134,976  | -                               | -   | -  | 11,750   | 309,196              |
| Ms. Jamison                | 165,000  | 134,976  | -                               | -   | -  | 15,000   | 314,976              |
| Mr. Mallott <sup>(4)</sup> | 72,125   | 134,976  | -                               | -   | -  | 2,500  | 209,601              |
| Mr. McCormick              | 84,375   | 134,966  | -                               | -   | -  | -  | 219,341              |
| Ms. Reardon                | 142,500  | 134,976  | -                               | -   | -  | 22,100   | 299,576              |
| Ms. Schoppert              | 125,000  | 134,976  | -                               | -   | -  | 20,700   | 280,676              |
| Mr. Solt <sup>(4)</sup>    | 67,345   | 134,976  | -                               | -   | -  | -  | 202,321              |

- (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 2018 as computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("ASC 718"). Except for the awards granted to Mr. DiGrande and Mr. McCormick, the full grant date fair value of the fiscal 2018 restricted stock unit award granted to our nonexecutive chair and each non-employee director was based on individual awards of 4,950 and 3,341 common shares, respectively, at a per common share value of \$40.40 on the grant date. The full grant date fair value of the fiscal 2018 restricted stock unit award granted to Messrs. DiGrande and McCormick was based on individual awards of 3,225 common shares at a per common share value of \$41.85 on the grant date. In accordance with ASC 718 and the 2017 LTIP, the per common share grant date value is the closing price of our common shares on the NYSE on the grant date.
- (2) As of February 2, 2019, Mr. Chambers held 4,950 shares of restricted stock units, Mr. Berger and Msrs. Gottschalk, Jamison, Reardon and Schoppert held 3,341 shares of restricted stock units and Messrs. DiGrande and McCormick held 3,225 shares of restricted stock units. Mr. Mallot and Mr. Solt retired from the board on June 30, 2018 and forfeited each of their respective restricted stock unit awards.
- (3) Amounts in this column reflect both matching contributions and payments made by us during fiscal 2018 to charitable organizations nominated by the specified directors.
- (4) Mr. Mallott and Mr. Solt retired as members of the board on June 30, 2018.

## 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, 2019.

| Name of Beneficial Owner or Identity of Group                | Amount and Nature of Beneficial Ownership (1) | Percent of Outstanding Common Shares |
|--|---|--------------------------------------|
| Lisa M. Bachmann   | 114,108                                       | *                                    |
| Jeffrey P. Berger  | 10,907  | *                                    |
| David J. Campisi   | 38,014  | *                                    |
| James R. Chambers  | 21,655  | *                                    |
| Sebastian J. DiGrande  | 3,225   | *                                    |
| Marla C. Gottschalk  | 10,595  | *                                    |
| Cynthia T. Jamison   | 10,595  | *                                    |
| Timothy A. Johnson   | 117,401                                       | *                                    |
| Christopher J. McCormick                                     | 3,225   | *                                    |
| Nancy A. Reardon   | 10,595  | *                                    |
| Ronald A. Robins, Jr.  | 21,186  | *                                    |
| Michael A. Schlonsky   | 75,329  | *                                    |
| Wendy L. Schoppert   | 10,595  | *                                    |
| Bruce K. Thorn   | 8,500   | *                                    |
| BlackRock, Inc. (2)  | 4,846,259                                     | 12.1%                                |
| The Vanguard Group, Inc. (3)                                 | 3,821,700                                     | 9.5%                                 |
| LSV Asset Management (4)                                     | 2,595,323                                     | 6.5%                                 |
| All directors and executive officers as a group (14 persons) | 455,930                                       | 1.1%                                 |

\* 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, 2019 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, 2019 through the vesting of performance share units within that period are as follows: Ms. Bachmann: 24,150; Mr. Campisi: 38,014; Mr. Johnson: 18,918; Mr. Schlonsky: 15,765; and Mr. Robins: 9,503; through the vesting of restricted stock units awards within that period are as follows: Mr. Berger: 3,341; Mr. Chambers: 4,950; Mr. DiGrande: 3,225; Ms. Gottschalk, 3,341; Ms. Jamison: 3,341; Mr. McCormick: 3,225; Ms. Reardon: 3,341; and Ms. Schoppert: 3,341; and under stock options exercisable within that period are as follows: Ms. Bachmann: 40,000; Mr. Johnson: 45,000; and Mr. Schlonsky: 25,000.
- (2) In its Schedule 13G/A filed on January 24, 2019, 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, 2018, had sole voting power over 4,670,783 of the shares and sole dispositive power over 4,846,259 of the shares, and had no shared voting power or shared dispositive power over any of the reported shares.
- (3) In its Schedule 13G/A filed on February 11, 2019, 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, 2018, had sole voting power over 50,831 of the shares, had sole dispositive power over 3,770,364 of the shares, had shared dispositive power over 51,336 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 45,932 and 10,303 common shares, respectively.
- (4) In its Schedule 13G filed on February 13, 2019, 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, 2018, had sole voting power over 1,483,208 of the shares and sole dispositive power over 2,595,323 of the shares, and had no shared voting power or shared dispositive power over any of the reported 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 2018 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 2018, who are listed below:

**Bruce K. Thorn\***

President and Chief Executive Officer

**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

**Ronald A. Robins, Jr.**

Senior Vice President, General Counsel and Corporate Secretary

**David J. Campisi\*\***

Former Chief Executive Officer and President

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(\*) Mr. Thorn was appointed as our President and CEO on September 30, 2018.

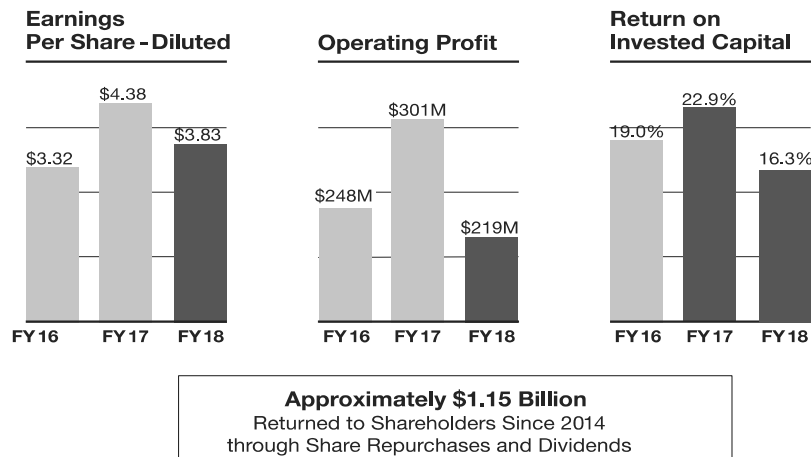
(\*\*) Mr. Campisi retired as our CEO and President and as a director effective as of April 16, 2018.

## EXECUTIVE SUMMARY

### *Company Performance in Fiscal 2018*

Our bottom line financial performance and expense management in fiscal 2018 did not meet our expectations. As a result of such performance and the emphasis that our executive compensation program places on performance-based compensation, the actual compensation realized by our named executive officers in fiscal 2018 was significantly lower than the total potential compensation awarded to our named executive officers for fiscal 2018. For example, we did not achieve the operating profit required for our named executive officers to earn annual incentive awards for fiscal 2018 under our 2006 Bonus Plan, and as a result, our named executive officers did not receive annual incentive awards for fiscal 2018. In addition, we did not achieve the target earnings per share – diluted (“EPS”) or return on invested capital (“ROIC”) performance goals applicable to the fiscal 2018 service period under the performance share unit awards (“PSUs”) granted to our NEOs in 2016, 2017 and 2018, and as a result, the total attainment for the fiscal 2018 service

period was only 77.9% of target. Despite our challenges in fiscal 2018, we continued to return cash to our shareholders through share repurchases and dividends.



## CEO Transition in 2018

### Retirement of David Campisi

On April 17, 2018, the Company announced the retirement of David Campisi as President, Chief Executive Officer and as a member of the Board, effective as of April 16, 2018. In connection with his retirement, Mr. Campisi entered into a separation agreement (“Separation Agreement”) with the Company on April 16, 2018. In recognition of Mr. Campisi’s service to the Company and in consideration of his execution of a general release of claims, Mr. Campisi received the separation payments and benefits provided for in his existing employment agreement as if his employment were terminated by the Company for no reason, as well as (i) accelerated vesting of 23,358 of his unvested RSUs; (ii) accelerated vesting of 72,514 of his unvested PSUs, which are subject to actual performance to be earned; and (iii) reimbursement of his reasonable attorneys’ fees incurred in connection with the termination of employment. The Separation Agreement imposes several restrictive covenants on Mr. Campisi, including covenants with respect to confidentiality, non-competition, non-interference and non-disparagement. The payments and benefits provided to Mr. Campisi in connection with his retirement are described in “Potential Payments Upon Termination or Change in Control” below.

### Hiring of Bruce Thorn

In September 2018, the Board appointed Bruce Thorn as the President and Chief Executive Officer of the Company and as a member of the Board. In connection with Mr. Thorn’s appointment, the Company entered into an offer letter agreement with Mr. Thorn, dated August 21, 2018 (the “Offer Letter”), setting forth Mr. Thorn’s initial compensation, which consisted of the following:

- an annual base salary of \$1,100,000;
- an annual bonus with target and maximum payout levels equal to 125% and 250%, respectively, of his annual base salary;
- an annual long-term incentive award with a target value equal to 400% of his annual base salary;
- a monthly vehicle allowance of \$1,100;
- relocation benefits;

- a signing bonus in the amount of \$500,000 that is subject to repayment if Mr. Thorn voluntarily separates from the Company within 12 months of his appointment; and
- a grant of restricted stock units (“RSUs”) with a value equal to \$3,000,000 that vest ratably in three annual installments over three years following the grant date.

Mr. Thorn is also entitled to participate in the Company’s Executive Severance Plan and to enter into a Senior Executive Severance Agreement, consistent with other similarly situated senior executives of the Company.

## ***Key Executive Compensation Actions in Fiscal 2018***

- **Base Salary Increases for Named Executive Officers.** Based on an analysis of market data, our Compensation Committee (referred to as the Committee in this CD&A) approved base salary increases in fiscal 2018 of 3.0% for Mr. Johnson, Ms. Bachmann, Mr. Schlonsky and Mr. Robins. Mr. Campisi did not receive an increase in his base salary in fiscal 2018.
- **Payouts on Performance-Based Awards.** Based on the Company’s adjusted operating profit for fiscal 2018, none of our named executive officers received an annual cash incentive award for fiscal 2018. Based on the Company’s EPS and ROIC over the past three years, the performance share units (“PSUs”) we granted in fiscal 2016 vested at 92.6% of the target performance level. Based on the Company’s operating profit in fiscal 2018, one-third of the RSUs we granted in fiscal 2018 as part of their annual long-term equity incentive awards vested and the remaining two-thirds will vest ratably over the next two years.
- **Special and Retention RSU Awards to Certain NEOs.** In March 2018, the Committee granted additional RSU awards to Mr. Johnson, Ms. Bachmann, Mr. Schlonsky and Mr. Robins for the increased responsibilities they assumed during Mr. Campisi’s medical absence. In September 2018, the Committee granted additional RSU awards to Mr. Johnson and Ms. Bachmann to incentivize them to remain with us during Mr. Thorn’s transition as President and CEO.

## ***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:

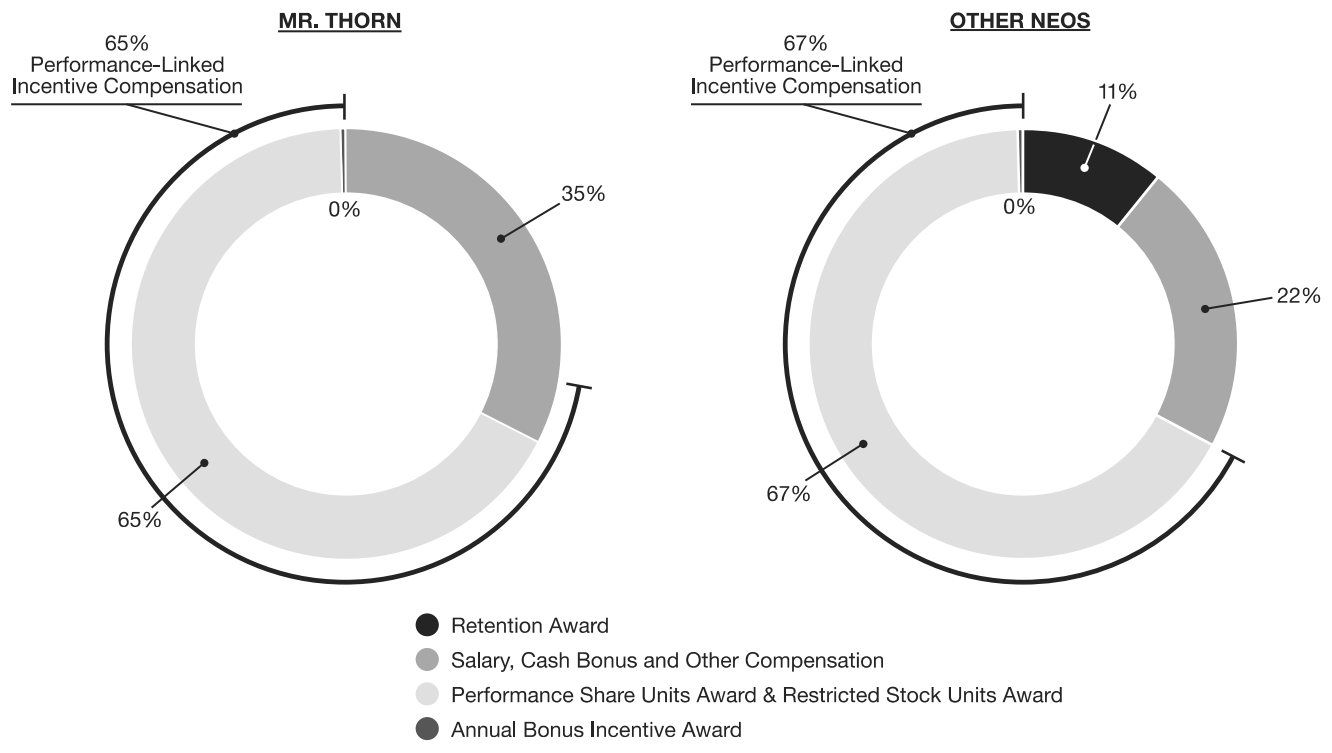
| <b>Component</b>                    | <b>Characteristics</b>                              | <b>Primary Purposes</b>   |
|-------------------------------------|---|---|
| <i>Base Salary</i>                  | Annual fixed cash compensation                      | Attract and retain talented executives through an annual salary that reflects the executive’s performance, experience and scope of responsibilities.<br>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.<br>Motivate executives to achieve multi-year financial and strategic goals and create long-term shareholder value.<br>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. Thorn’s and our other named executive officers’ (employed by us at the end of fiscal 2018) total compensation awarded for fiscal 2018 that was performance-based. Mr. Thorn’s Salary and Other Compensation shown below was annualized for fiscal 2018.

**2018 COMPENSATION AWARDED**



**Executive Compensation and Governance Practices and Policies**

The following table sets forth executive compensation and governance practices and policies 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 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-ups under our employment agreement and, in fiscal 2018, we amended all of our severance agreements to eliminate excise tax gross-ups in the event of a change in control. |
| <i>Dividends on Unearned Awards</i>        | ✓ | We do not pay dividends on unearned performance awards.  |

## **2018 Say-on-Pay Advisory Vote and Shareholder Engagement**

At our 2018 annual meeting of shareholders, our shareholders approved the compensation of our named executive officers with approximately 92% 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' support of our 2018 say-on-pay resolution and discussions with our shareholders before our 2018 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> | Lead the process for establishing our annual executive compensation program and approve or recommend that the Board approve compensation actions.<br>Consult with management and the Committee's compensation consultant regarding employee benefit and compensation programs, plans and awards.             |
| <i>All Outside Directors</i>  | Conduct comprehensive evaluation of CEO performance.<br>Approve annual executive compensation program and finalize compensation awards for the members of our Leadership Team.   |
| <i>CEO</i>                    | 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. |
| <i>Management</i>             | Make recommendations to the Committee and our CEO in the design and administration of our employee benefit and compensation programs, plans and awards in accordance with the Committee's charter and the terms of   |

our compensation plans.

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.

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## ***Fiscal 2018 Compensation Determination Process***

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At its March 2018 meeting, the Committee:

- reviewed and discussed the continued appropriateness of our executive compensation program, including its objectives, policies, components and processes;
- reviewed and discussed the performance evaluations and compensation recommendations for the other Leadership Team members;
- reviewed and discussed comparative compensation data;
- prepared its fiscal 2018 compensation recommendations for each member of our Leadership Team and took no action with respect to Mr. Campisi's compensation for fiscal 2018;
- determined that the performance trigger for the 2017 RSUs was achieved;
- determined the final performance and associated payout percentage for the 2015 PSUs;
- determined that the second performance trigger for the 2013 restricted stock awards was achieved; and
- determined that a bonus was payable under the annual incentive awards for fiscal 2017 as a result of corporate performance in fiscal 2017.

At our March 2018 Board meeting:

- the Committee discussed its compensation 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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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 |

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 2018, 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

During the course of establishing the fiscal 2018 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, market capitalization and number of stores. The companies included in the Retailer Peer Group for fiscal 2018 compensation decisions were:

- Abercrombie & Fitch
- Advance Auto Parts
- American Eagle Outfitters
- Ascena Retail Group
- Bed Bath & Beyond
- Burlington Stores
- Dick’s Sporting Goods
- DSW
- Express
- Foot Locker
- L Brands
- RH
- Ross Stores
- Tractor Supply
- Urban Outfitters
- 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 2018 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<br>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 agreement described below in “Agreements with Named

Executive Officers – Employment Agreement”. 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 2018, the Committee approved the following salaries for the named executive officers, which became effective on April 1, 2018:

| Name          | Fiscal 2018<br>Salary<br>(\$) |
|---------------|-------------------------------|
| Mr. Thorn*    | \$1,100,000                   |
| Mr. Johnson   | \$ 616,325                    |
| Ms. Bachmann  | \$ 786,775                    |
| Mr. Schlonsky | \$ 513,600                    |
| Mr. Robins    | \$ 473,800                    |
| Mr. Campisi** | \$1,150,000                   |

(\*) Mr. Thorn was appointed as our President and CEO on September 30, 2018.

(\*\*) Mr. Campisi retired as our CEO and President effective as of April 16, 2018.

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

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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. See the “Bonus and Equity Plans” discussion following the Summary Compensation Table for more information regarding our annual cash incentive awards.

### ***Fiscal 2018 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 2018 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 2018 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 2018. The minimum performance goal was set at the minimum acceptable level for adjusted operating profit in our annual corporate operating plan for fiscal 2018 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 2018.

### ***Fiscal 2018 Payout Percentages***

The Committee and the other outside directors maintained the same annual cash incentive award payout percentages for our named executive officers for fiscal 2018 that applied for fiscal 2017 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 2018.

The following table sets forth for fiscal 2018 the performance goal established for each performance level and the payout percentage established for each named executive officer for each performance level:

**Payout Percentage (% of salary)**

| Fiscal 2018 Performance Levels | Performance   | Mr. Thorn | Mr. Johnson | Ms. Bachmann | Mr. Schlonsky | Mr. Robins | Mr. Campisi |
|--------------------------------|---------------|-----------|-------------|--------------|---------------|------------|-------------|
|                                | Goal (\$)     |           |             |              |               |            |             |
| Below Threshold                | 0-            |           |             |              |               |            |             |
|                                | \$267,837,463 | 0         | 0           | 0            | 0             | 0          | 0           |
| Threshold                      | \$267,837,464 | 62.5      | 30          | 30           | 30            | 30         | 65          |
| Target                         | \$280,021,312 | 125       | 60          | 60           | 60            | 60         | 130         |
| Maximum                        | \$300,158,315 | 250       | 120         | 120          | 120           | 120        | 260         |

### *Fiscal 2018 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 selective 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. Consistent with prior years, the Committee exercised negative discretion to reduce the corporate performance amount achieved for fiscal 2018 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 2018, and not because of any corporate or individual performance factors.

The following table sets forth for fiscal 2018 the payout percentage achieved and the annual cash incentive award earned by each named executive officer:

| Name          | Payout Percentage (% of salary) | Annual Cash Incentive Award (\$) |
|---------------|---------------------------------|----------------------------------|
| Mr. Thorn     | 0%                              | \$0                              |
| Mr. Johnson   | 0%                              | \$0                              |
| Ms. Bachmann  | 0%                              | \$0                              |
| Mr. Schlonsky | 0%                              | \$0                              |
| Mr. Robins    | 0%                              | \$0                              |
| Mr. Campisi   | 0%                              | \$0                              |

Our adjusted operating profit for fiscal 2018 was below the threshold level of our operating plan as established by our Board and management and, therefore, our named executive officers did not earn an annual incentive award for fiscal 2018. As a result, the total cash compensation paid to the named executive officers for fiscal 2018 was generally at or below the median for our peer groups.

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

For fiscal 2018, we awarded PSUs and RSUs to each of our named executive officers except for Mr. Thorn and Mr. Campisi. Mr. Thorn received an RSU award upon his appointment as our President and CEO in October 2018 and Mr. Campisi did not receive an equity award in fiscal 2018. Each of our other 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 2018;
- historical grant information;
- comparative compensation data;
- retention factors;
- corporate performance (particularly operating profit, net income, 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
- the 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 2018. 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. For the 2018 PSU award, 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 derived from our financial statements and then adjust the performance measures to eliminate the effect of selected events, transactions or accrual items described in the Big Lots 2017 Long-Term Incentive Plan (“2017 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 2018, the Committee selected EPS and ROIC as the performance measures for the fiscal 2018 service period and established the performance goals applicable to the first service period of the fiscal 2018 PSU award performance cycle, the second service period of the fiscal 2017 PSU award performance cycle and the last service period of the 2016 PSU award performance cycle. The following table sets forth the performance goals established by the Committee for each performance measure for fiscal 2018 and the actual amount of each performance goals measure in fiscal 2018:

| Performance Measure | Weighting | Target | Actual |
|---------------------|-----------|--------|--------|
| EPS                 | 50%       | \$4.90 | \$3.91 |
| ROIC                | 50%       | 23.0%  | 17.5%  |

### *Fiscal 2018 PSU Awards*

The following table sets forth the target number and grant value of the PSUs awarded to the named executive officers in fiscal 2018 (Mr. Thorn and Mr. Campisi did not receive a PSU award for fiscal 2018) and the performance attained for each performance measure during each completed service period in the fiscal 2018 PSU award performance cycle:

| Name          | Target Number of PSUs | Grant Value of PSUs |
|---------------|-----------------------|---------------------|
| Mr. Johnson   | 17,057                | \$807,820           |
| Ms. Bachmann  | 21,774                | \$1,031,216         |
| Mr. Schlonsky | 14,214                | \$673,175           |
| Mr. Robins    | 11,656                | \$552,028           |

**Fiscal 2018 PSU Award Performance Cycle Attainment**  
(2018-2020)

|             |                         | <b>Fiscal<br/>2018</b> | <b>Fiscal<br/>2019</b> | <b>Fiscal<br/>2020</b> |
|-------------|-------------------------|------------------------|------------------------|------------------------|
| <b>EPS</b>  | Actual Results          | \$3.91                 | TBD                    | TBD                    |
|             | Target Performance Goal | \$4.90                 | TBD                    | TBD                    |
|             | Performance %           | 79.8%                  | TBD                    | TBD                    |
| <b>ROIC</b> | Actual Results          | 17.5%                  | TBD                    | TBD                    |
|             | Target Performance Goal | 23.0%                  | TBD                    | TBD                    |
|             | Performance %           | 76.0%                  | TBD                    | TBD                    |

**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 (Mr. Thorn was not employed by the Company during fiscal 2017) and the performance attained for each performance measure during each completed service period in the fiscal 2017 PSU award performance cycle:

| <b>Name</b>   | <b>Target Number of PSUs</b> | <b>Grant Value of PSUs</b> |
|---------------|------------------------------|----------------------------|
| Mr. Campisi   | 31,462                       | \$1,620,004                |
| 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)

|             |                         | <b>Fiscal<br/>2017</b> | <b>Fiscal<br/>2018</b> | <b>Fiscal<br/>2019</b> |
|-------------|-------------------------|------------------------|------------------------|------------------------|
| <b>EPS</b>  | Actual Results          | \$4.27                 | \$3.91                 | TBD                    |
|             | Target Performance Goal | \$4.10                 | \$4.90                 | TBD                    |
|             | Performance %           | 104.2%                 | 79.8%                  | TBD                    |
| <b>ROIC</b> | Actual Results          | 22.7%                  | 17.5%                  | TBD                    |
|             | Target Performance Goal | 23.5%                  | 23.0%                  | TBD                    |
|             | Performance %           | 96.8%                  | 76.0%                  | 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 (Mr. Thorn was not employed by the Company during fiscal 2016), the number and value of the PSUs actually earned by the named executive officer 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 2016 PSU award performance cycle:

| <b>Name</b>   | <b>Target Number of PSUs</b> | <b>Grant Value of PSUs</b> | <b>Number of PSUs Earned</b> | <b>Value of PSUs Earned</b> | <b>Vesting Factor</b> |
|---------------|------------------------------|----------------------------|------------------------------|-----------------------------|-----------------------|
| Mr. Campisi   | 41,052                       | \$1,851,855                | 38,014                       | \$1,447,573                 | 92.6%                 |
| Mr. Johnson   | 20,430                       | \$921,597                  | 18,918                       | \$720,397                   | 92.6%                 |
| Ms. Bachmann  | 26,080                       | \$1,176,469                | 24,150                       | \$919,632                   | 92.6%                 |
| Mr. Schlonsky | 17,025                       | \$767,998                  | 15,765                       | \$600,331                   | 92.6%                 |
| Mr. Robins    | 10,263                       | \$462,964                  | 9,503                        | \$361,874                   | 92.6%                 |

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

|   |                         | <b>Fiscal<br/>2016</b> | <b>Fiscal<br/>2017</b> | <b>Fiscal<br/>2018</b> |
|---|-------------------------|------------------------|------------------------|------------------------|
| <b>EPS</b>  | Actual Results          | \$3.75                 | \$4.27                 | \$3.91                 |
|   | Target Performance Goal | \$3.35                 | \$4.10                 | \$4.90                 |
|   | Performance %           | 111.9%                 | 104.2%                 | 79.8%                  |
| <i>EPS Vesting Factor for 2016 PSU Awards (129.9% + 110.4% + 49.5% / 3) = 96.6%</i> |                         |                        |                        |                        |
| <b>ROIC</b>   | Actual Results          | 21.8%                  | 22.7%                  | 17.5%                  |

|                         |        |       |       |
|-------------------------|--------|-------|-------|
| Target Performance Goal | 19.2%  | 23.5% | 23.0% |
| Performance %           | 113.7% | 96.8% | 76.0% |

*ROIC Vesting Factor for 2016 PSU Awards (134.1% +91.9%+40.1% / 3) = 88.7%*

### ***Fiscal 2018 RSU Awards***

The following table sets forth the number and grant value of the RSUs awarded to the named executive officers in fiscal 2018:

| <b>Name</b>   | <b>Number of RSUs</b> | <b>Grant Value of RSUs</b> |
|---------------|-----------------------|----------------------------|
| Mr. Thorn     | 68,634                | \$2,999,992                |
| Mr. Johnson   | 11,370                | \$538,483                  |
| Ms. Bachmann  | 14,515                | \$687,430                  |
| Mr. Schlonsky | 9,475                 | \$448,736                  |
| Mr. Robins    | 7,770                 | \$367,987                  |

The RSUs awarded to our named executive officers vest ratably over three years from the grant date of the award and, are 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 2018, the performance requirement for the fiscal 2018 RSU awards was met. Accordingly, except for Mr. Thorn, one-third of the RSU awards for fiscal 2018 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. The RSUs awarded to Mr. Thorn in fiscal 2018 vest ratably over three years beginning on the first anniversary of the grant date (October 15, 2019).

### ***Fiscal 2018 Special and Retention RSU Awards***

In March 2018, after consulting with the outside directors, the Committee awarded additional RSU awards (“Special Awards”) to Mr. Johnson, Ms. Bachmann, Mr. Schlonsky and Mr. Robins for the increased responsibilities they assumed during Mr. Campisi’s medical absence. The number of common shares underlying the Special Awards is 12,634 for Mr. Johnson, 16,128 for Ms. Bachmann, 10,528 for Mr. Schlonsky and 9,712 for Mr. Robins. Each Special Award will vest on the second anniversary of the grant date subject to: (1) the executive remaining employed by us through the vesting date; and (2) our satisfaction of 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 the next fiscal year immediately thereafter. As a result of our performance in fiscal 2018, the performance requirement for the Special Awards was met and, as a result, each Special Award will vest on the second anniversary of the grant date provided that the executive is employed by the Company on the vesting date.

In September 2018, after consultation with the outside directors, the Committee awarded additional RSU awards (“Retention Awards”) to Mr. Johnson and Ms. Bachmann to incentivize them to remain with us during Mr. Thorn’s transition as President and CEO. The number of common shares underlying the Retention Awards is 14,819 for Mr. Johnson and 18,917 for Ms. Bachmann. Each Retention Award will vest upon the earlier to occur of: (1) the first anniversary of the grant date; or (2) the termination of the executive’s employment (A) by us without cause (as defined in the Retention Award Agreement) or (B) by reason of the executive’s death or disability (on a pro rata basis from the grant date through the date of the executive’s death or disability). If the executive is terminated for any other reason before the first anniversary of the grant date, the executive will forfeit the Retention Award.

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

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.

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

The employment agreement 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 equity awards, including PSUs and RSUs, in connection with certain termination events. The change in control provisions of the employment agreement and severance agreements provide the named executive officer 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.

## **AGREEMENTS WITH NAMED EXECUTIVE OFFICERS**

### **Employment Agreement**

On April 29, 2013, we entered into a Second Amended and Restated Employment Agreement with Ms. Bachmann. The term of Ms. Bachmann’s employment agreement will remain effective as long as we employ her unless we and the executive mutually agree to amend or terminate her employment agreement. We negotiated the terms of her employment agreement and in those negotiations, 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 (if applicable) and anticipated future performance of the executive; the compensation paid to similarly-situated executives at comparator group companies; the relationship between the compensation offered to the executive and paid to the other Leadership Team members; our perception of the relative bargaining power of the Company and the executive; and to the extent applicable, the elements and amounts of compensation offered or paid to the executive by another employer.

Under the terms of her employment agreement, Ms. Bachmann is entitled to receive at least \$625,000 in annual base salary. Ms. Bachmann’s employment agreement also establishes the minimum payout percentages (as a percentage of base salary) that may be set for her target and maximum annual incentive award levels as 60% and 120%, respectively.

The employment agreement with Ms. Bachmann impose several restrictive covenants that survive the termination of her employment in exchange for minimum salary levels and target and maximum bonus payout percentages, potential severance and change in control payments and other benefits. These restrictive covenants include confidentiality (infinite), non-solicitation (two years), non-disparagement (infinite), non-competition (one year, but reduced to six months following a change in control), and continuing cooperation (infinite).

The employment agreement does not require us to reimburse Ms. Bachmann for the amount of any golden parachute excise tax imposed under Section 4999 of the IRC. Her employment agreement provides that if the payments to be received by the executive in connection with a change in control constitute “excess parachute payments,” her payments and benefits will be reduced to the extent necessary to become one dollar less than the amount that would generate an excise tax liability unless she would be in a better net after-tax position without any such reduction, in which case payments and benefits will not be reduced.

## **Senior Executive Severance Agreements**

We have entered into a senior executive severance agreement with each of Messrs. Thorn, 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 target annual incentive award; (2) a lump-sum payment equal to executive's target bonus prorated for the number of days the executive worked during the applicable performance period prior to the executive's termination; and (3) for a period of two years, 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 2018, the Committee amended all senior executive severance agreements for our named executive officers to eliminate a gross-up payment that offset excise taxes upon a change of control and termination.

## **Severance Plan**

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.

## **Retirement Plans**

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 enhances 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, 2019, 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 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 2018, the outside directors, after consultation with the Committee, specified that the grant date of the equity awards was the first trading day following our release of fiscal 2017 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.

Section 162(m) generally does not allow a tax deduction to publicly-held companies for compensation over \$1 million paid in any fiscal year to certain current and former executive officers of the company. However, prior to December 2017, when the Tax Cuts and Jobs Act (“Tax Act”) was enacted into law, Section 162(m) exempted qualified performance-based compensation from this \$1 million limit if certain requirements were met. Historically, the Committee had structured the annual cash incentives and performance-based compensation awarded to covered employees in a manner intended to meet the exception from Section 162(m)’s deduction limits.

The Tax Act eliminates the qualified performance-based exception to the \$1 million deduction limit and subjects the chief executive officer and certain other current and former executive officers of the company to the \$1 million limitation for

taxable years beginning after December 31, 2017. The Tax Act includes a grandfathering provision for compensation paid pursuant to a written binding contract in effect on or before November 2, 2017 that has not been modified in any material way since that date. Based on current guidance, we believe our equity awards granted on and prior to November 2, 2017 are in compliance with the grandfathering provision and will remain deductible. However, equity awards granted after November 2, 2017 will likely be subject to the limitations on deductibility under Section 162(m) as expanded by the Tax Act.

The 2006 Bonus Plan is the plan under which our named executive officers were awarded short-term annual cash incentive awards prior to 2019. Beginning with the 2019 fiscal year, our named executive officers will be awarded short-term annual cash incentive awards under the 2019 Bonus Plan. Historically, our intent was for annual cash incentive awards issued to covered employees under the 2006 Bonus Plan to qualify for the performance-based compensation deduction allowed by Section 162(m). Although we still intend to grant performance-based annual compensation opportunities, amounts paid pursuant to the 2019 Bonus Plan are likely to be subject to the limitations on deductibility under Section 162(m) as expanded by the Tax Act.

## ***EXECUTIVE COMPENSATION PROGRAM FOR FISCAL 2019***

In establishing the executive compensation program for fiscal 2019, 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 2019. There were no merit increases to the base salaries of our named executive officers. We awarded RSUs and PSUs with the same weighting as fiscal 2018, 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 2019 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 2018 ("Form 10-K").

### *Members of the Compensation Committee*

Nancy A. Reardon (Chair)

Marla C. Gottschalk

Jeffrey P. Berger

Christopher J. McCormick

## Summary Compensation Table for 2018

| Name and Principal Position (1)<br>(a)   | Year<br>(b) | Salary<br>(\$)<br>(2)<br>(c) | Bonus<br>(\$)<br>(3)<br>(d) | Stock Awards<br>(\$)<br>(4)<br>(e) | Non-Equity Incentive Plan Compensation<br>(\$)<br>(5)<br>(g) | Change in Pension Value and Nonqualified Deferred Compensation Earnings<br>(\$)<br>(h) | All Other Compensation<br>(\$)<br>(6)(7)<br>(i) | Total<br>(\$)<br>(j) |
|--|-------------|------------------------------|-----------------------------|------------------------------------|--|--|---|----------------------|
| Bruce K. Thorn,<br><i>Chief Executive Officer and President (8)</i>  | 2018        | 359,615                      | 500,000                     | 2,999,992                          | -  | -  | 47,725  | 3,907,332            |
|  |             |                              | -                           |                                    |  | -  |   |                      |
|  |             |                              | -                           |                                    |  | -  |   |                      |
| Timothy A. Johnson,<br><i>Executive Vice President, Chief Administrative Officer and Chief Financial Officer</i> | 2018        | 613,214                      | -                           | 2,560,971                          | -  | -  | 217,967   | 3,392,152            |
|  | 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            |
| Lisa M. Bachmann,<br><i>Executive Vice President, Chief Merchandising and Operating Officer</i>                  | 2018        | 782,807                      | -                           | 3,269,227                          | -  | -  | 235,106   | 4,287,140            |
|  | 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            |
| Michael A. Schlonsky,<br><i>Executive Vice President, Human Resources</i>  | 2018        | 511,008                      | -                           | 1,620,517                          | -  | -  | 135,267   | 2,266,792            |
|  | 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            |
| Ronald A. Robins, Jr.,<br><i>Senior Vice President, General Counsel and Corporate Secretary</i>                  | 2018        | 471,412                      | -                           | 1,379,975                          | -  | -  | 84,277  | 1,935,664            |
|  | 2017        | 456,577                      | -                           | 875,484                            | 227,783  | -  | 56,769  | 1,616,613            |
|  | 2016        | 435,788                      | -                           | 771,561                            | 380,383  | -  | 52,557  | 1,640,289            |
| David J. Campisi,<br><i>Former Chief Executive Officer and President (9)</i>                                     | 2018        | 265,385                      | -                           | -                                  | -  | -  | 1,662,927                                       | 1,928,312            |
|  | 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            |

- (1) We are a party to an employment agreement with Ms. Bachman, the material terms of which are described in the “Agreements with Named Executive Officers – Employment Agreement” section of the CD&A. We are a party to a senior executive severance agreement with Mr. Thorn, 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 a Separation Agreement with Mr. Campisi effective as of April 16, 2018. The Separation Agreement sets forth all of the payments and benefits (including the treatment of outstanding equity awards) that Mr. Campisi received in connection with his retirement.
- (2) The amounts in this column reflect the salary earned by each named executive officer for fiscal 2018, fiscal 2017 and fiscal 2016.
- (3) The amount in this column reflects the bonus the Company paid to Mr. Thorn upon his employment with the Company.
- (4) 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 in fiscal 2018 under the 2017 LTIP and in fiscal 2017 and fiscal 2016 under the Big Lots 2012 Long-Term Incentive Plan (“2012 LTIP”). These amounts do not represent the actual amounts that will be realized by the Named Executive Officers with respect to such awards. Assumptions used in the calculation of these amounts are included in Note 7 to the Company’s audited consolidated financial statements for the fiscal year ended February 2, 2019, included in the Form 10-K.
- (5) 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.

- (6) For fiscal 2018, the amounts in this column include the following compensation for the executives, as more fully described in the table included with this footnote:
- i. 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;
  - ii. 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;
  - iii. 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;
  - iv. 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. Payments made to Mr. Thorn to reimburse him for expenses he incurred in connection with his relocation to Columbus, Ohio;
  - ix. Matching charitable contributions made by Big Lots;
  - x. Dividends paid on vested RSU and PSU awards; and
  - xi. Separation payments made to Mr. Campisi pursuant to the Separation Agreement.

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 2018 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. Thorn | Mr. Johnson | Ms. Bachmann | Ms. Schlonsky | Mr. Robins | Mr. Campisi |
|---|-----------|-------------|--------------|---------------|------------|-------------|
| Reimbursement of Taxes (\$)                                   | 5,555     | 6,158       | 5,033        | 7,914         | 2,529      | 54,067      |
| Big Lots Contributions to Defined Contribution Plans (\$)     | -         | 11,000      | 11,000       | 11,000        | 11,000     | 11,000      |
| Big Lots Paid Health Care under Executive Benefits Plans (\$) | 2,411     | 5,920       | 4,565        | 8,036         | 4,303      | 64,655      |
| Big Lots Paid Life Insurance Premiums (\$)                    | 258       | 714         | 775          | 596           | 550        | 258         |
| Big Lots Paid Long-Term Disability Insurance Premiums (\$)    | 375       | 1,501       | 1,501        | 1,501         | 1,501      | 500         |
| Use of Automobile or Automobile Allowance (\$)                | 4,315     | 13,200      | 13,200       | 13,200        | 13,200     | 20,915      |
| Non-Business Aircraft Usage (\$)                              | -         | -           | -            | -             | -          | 99,270      |
| Relocation Expenses   | 19,811    | -           | -            | -             | -          | -           |
| Severance and Change-in-Control Expenses                      | -         | -           | -            | -             | -          | 924,615     |
| Matching Charitable Contributions (\$)                        | 15,000    | 15,000      | 15,000       | 15,000        | 15,000     | -           |
| Dividend Payments (\$)  | -         | 164,474     | 184,032      | 78,019        | 36,194     | 487,647     |
| Total   | 47,725    | 217,967     | 235,106      | 135,267       | 84,277     | 1,662,927   |

- (7) 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.
- (8) Mr. Thorn was appointed as our President and CEO in September 2018 and did not serve as a named executive officer in fiscal 2016 or fiscal 2017.

(9) Mr. Campisi served as our CEO and President until his retirement on April 16, 2018.

### ***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, the 2012 LTIP and the 2017 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 2018 table.

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

The 2006 Bonus Plan provided for cash compensation paid annually when we met or exceeded 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 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 existed under the 2006 Bonus Plan, and the Compensation Committee had the discretion to cancel or decrease an annual incentive award (but 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. Payments made with respect to a fiscal year were made in the first quarter of the following fiscal year. The annual incentive awards that may be earned under the 2006 Bonus Plan ranged from the threshold to the maximum annual incentive award payout percentages, and included all amounts in between. The smallest target and maximum annual incentive award payout percentages that may be set annually for Ms. Bachmann is set forth in her employment agreement. The threshold annual incentive award payout percentage was 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 Ms. Bachmann's employment agreement, the Compensation Committee and the other non-employee directors retained 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 was \$4,000,000. See the "Components of our Executive Compensation Program – Annual Cash Incentive Awards" and "Agreements with Named Executive Officers – Employment Agreement" sections of the CD&A for more information regarding the 2006 Bonus Plan and the awards made under that plan for fiscal 2018.

On March 5, 2019, the Compensation Committee adopted the Big Lots 2019 Bonus Plan, which replaces the 2006 Bonus Plan and is effective for incentive bonus opportunities granted by the Company beginning in fiscal 2019.

#### ***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.

The RSUs awarded to our named executive officers 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 PSUs awarded to our named executive officers pursuant to the 2012 LTIP 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 selected 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 selected 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.

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 Ms. Bachmann's employment agreement, our named executive officers' 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.

### *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 RSUs awarded to our named executive officers in fiscal 2018 pursuant to the 2017 LTIP covered a fixed number of RSUs. Except for RSUs awarded under the Retention Awards, the RSUs will vest, if at all, ratably over three years (or two years in the case of the Special Awards) 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 RSUs awarded under the Retention Awards will vest upon the earlier to occur of: (1) the first anniversary of the grant date; or (2) the termination of the executive's employment (A) by us without cause (as defined in the Retention Award Agreement) or (B) by reason of the executive's death or disability (on a pro rata basis from the grant date through the date of the executive's death or disability). If the executive is terminated for any other reason before the first anniversary of the grant date, the executive will forfeit the Retention Award.

The PSUs awarded to our named executive officers in fiscal 2018 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 selected 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 selected 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 2018 PSU awards, the Committee established the target EPS performance level at \$4.90, and the target ROIC performance level at 23.0%.

Upon a change in control (as defined in the 2017 LTIP), all awards outstanding under the 2017 LTIP automatically become fully vested. For a discussion of the change in control provisions in Ms. Bachmann's employment agreements, our senior executive severance agreements and the 2017 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 2017 LTIP in fiscal 2018.

### Grants of Plan-Based Awards in Fiscal 2018

The following table sets forth each award made to our named executive officers in fiscal 2018 under the 2006 Bonus Plan and the 2017 LTIP.

| Name<br>(a)   | Grant Date<br>(1)<br>(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<br>(#) (4)<br>(i) | All Other Option Awards: Number of Securities Underlying Options<br>(#)<br>(j) | Exercise or Base Price of Option Awards<br>(\$/Sh.)<br>(k) | Grant Date Fair Value of Stock and Option Awards<br>(\$/ Shr.) (5)<br>(l) |
|---------------|--------------------------|---|-----------------------|------------------------|---|-----------------------|------------------------|--|--|--|---|
|               |                          | Threshold<br>(c)  | Target<br>(\$)<br>(d) | Maximum<br>(\$)<br>(e) | Threshold<br>(#)<br>(f)   | Target<br>(\$)<br>(g) | Maximum<br>(\$)<br>(h) |  |  |  |   |
| Mr. Thorn     | -                        | 687,500   | 1,375,000             | 2,750,000              | -   | -                     | -                      | -  | -  | -  | -   |
|               | 10/15/18                 | -   | -                     | -                      | -   | -                     | -                      | 68,634   | -  | -  | 2,999,992   |
| Mr. Johnson   | -                        | 184,898   | 369,795               | 739,590                | -   | -                     | -                      | -  | -  | -  | -   |
|               | 3/12/18                  | -   | -                     | -                      | 8,529   | 17,057                | 25,586                 | -  | -  | -  | 807,820   |
|               | 3/12/18                  | -   | -                     | -                      | -   | -                     | -                      | 24,004   | -  | -  | 1,136,829   |
|               | 9/15/18                  | -   | -                     | -                      | -   | -                     | -                      | 14,819   | -  | -  | 616,322   |
| Ms. Bachmann  | -                        | 236,032   | 472,065               | 944,130                | -   | -                     | -                      | -  | -  | -  | -   |
|               | 3/12/18                  | -   | -                     | -                      | 10,887  | 21,774                | 32,661                 | -  | -  | -  | 1,031,217   |
|               | 3/12/18                  | -   | -                     | -                      | -   | -                     | -                      | 30,643   | -  | -  | 1,451,252   |
|               | 9/15/18                  | -   | -                     | -                      | -   | -                     | -                      | 18,917   | -  | -  | 786,758   |
| Mr. Schlonsky | -                        | 154,080   | 308,160               | 616,320                | -   | -                     | -                      | -  | -  | -  | -   |
|               | 3/12/18                  | -   | -                     | -                      | 7,107   | 14,214                | 21,321                 | -  | -  | -  | 673,175   |
|               | 3/12/18                  | -   | -                     | -                      | -   | -                     | -                      | 20,003   | -  | -  | 947,342   |
| Mr. Robins    | -                        | 142,140   | 284,280               | 568,560                | -   | -                     | -                      | -  | -  | -  | -   |
|               | 3/12/18                  | -   | -                     | -                      | 5,828   | 11,656                | 17,484                 | -  | -  | -  | 552,028   |
|               | 3/12/18                  | -   | -                     | -                      | -   | -                     | -                      | 17,482   | -  | -  | 827,947   |
| Mr. Campisi   | -                        | 747,500   | 1,495,000             | 2,990,000              | -   | -                     | -                      | -  | -  | -  | -   |

- (1) As discussed in the “Compensation Policies & Practices – Equity Grant Timing” section of the CD&A, in fiscal 2018, the Board set the grant date for the March RSU awards and the service inception date for the PSU awards as the first 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. For all other awards, the Board set the grant date as the 15<sup>th</sup> day of the month following the award date.
- (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 2018 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 2018, our named executive officers did not earn an annual incentive award under the 2006 Bonus Plan.
- (3) The amounts in columns (f), (g) and (h) represent the threshold, target and maximum number of PSUs awarded pursuant to the 2017 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 2017 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 2018 Fiscal Year-End

The following table sets forth, as of the end of fiscal 2018, all equity awards outstanding under our equity compensation plans for each named executive officer.

| Name<br>(a)   | Option Awards   |   |   |                                    |                            | Stock Awards  |  |   |  |  |
|---------------|---|---|---|------------------------------------|----------------------------|---|--|---|--|--|
|               | Number of Securities Underlying Unexercised Options (#) Exercisable (b) | Number of Securities Underlying Unexercised Options (#) Unexercisable (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. Thorn     | -   | -   | -   | -                                  | -                          | 68,634  | 2,149,617  | -   | -  |  |
| Mr. Johnson   | 35,000  | -   | -   | 43.85                              | 3/6/2019                   | -   | -  | -   | -  |  |
|               | 5,000   | -   | -   | 30.82                              | 8/28/2019                  | -   | -  | -   | -  |  |
|               | 40,000  | -   | -   | 35.72                              | 3/8/2020                   | -   | -  | -   | -  |  |
|               | -   | -   | -   | -                                  | -                          | 50,257  | 1,574,049  | 52,718  | 1,651,128  |  |
| Ms. Bachmann  | 40,000  | -   | -   | 35.72                              | 3/8/2020                   | -   | -  | -   | -  |  |
|               | -   | -   | -   | -                                  | -                          | 64,157  | 2,009,397  | 67,298  | 2,107,773  |  |
| Mr. Schlonsky | 15,000  | -   | -   | 43.85                              | 3/6/2019                   | -   | -  | -   | -  |  |
|               | 5,000   | -   | -   | 30.82                              | 8/28/2019                  | -   | -  | -   | -  |  |
|               | 20,000  | -   | -   | 35.72                              | 3/8/2020                   | -   | -  | -   | -  |  |
|               | -   | -   | -   | -                                  | -                          | 29,531  | 924,911  | 43,932  | 1,375,950  |  |
| Mr. Robins    | -   | -   | -   | -                                  | -                          | 24,365  | 763,112  | 32,121  | 1,006,029  |  |
| Mr. Campisi   | -   | -   | -   | -                                  | -                          | -   | -  | 72,514  | 2,271,138  |  |

(1) All stock option awards reflected in this table were made pursuant to the 2012 LTIP.

(2) The awards reported in column (g) reflect the unvested RSUs awarded to Mr. Thorn in fiscal 2018 under the 2017 LTIP and the unvested RSUs awarded to our other named executive officers in fiscal 2018, fiscal 2017 and fiscal 2016 under the 2012 LTIP and 2017 LTIP. The first third of the fiscal 2017 RSU awards and the second third of the fiscal 2016 RSU awards vested during fiscal 2018. For additional information regarding the fiscal 2018 RSU awards, including the vesting terms, see the narrative discussion preceding the Grants of Plan-Based Awards in Fiscal 2018 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. Johnson, Ms. Bachmann, Mr. Schlonsky, and Mr. Robins, a PSU award in fiscal 2018, fiscal 2017 and fiscal 2016 (each at the target amount); and (2) for Mr. Campisi, fifty percent of each of his PSU awards in fiscal 2017 and fiscal 2016 (each at the target amount). If we achieve the maximum performance levels applicable to the PSU awards in fiscal 2018 and fiscal 2017, the total number of PSUs that would vest and be earned for such PSU awards would be: (1) 48,431 for Mr. Johnson; (2) 61,827 for Ms. Bachmann; (3) 40,360 for Mr. Schlonsky; (4) 32,787 for Mr. Robins; and (5) 47,139 for Mr. Campisi. The fiscal 2016 PSU awards vested on April 3, 2019. For additional information on the fiscal 2016 PSU awards, see the narrative discussion in the “Components of our Executive Compensation Program – Long-Term Equity Incentive Compensation” section of the CD&A.

The awards reported in column (i) were made pursuant to the 2012 LTIP and 2017 LTIP. The actual number of PSUs awarded to each named executive officer in fiscal 2018, fiscal 2017 and fiscal 2016 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 2018 PSU awards, including the vesting terms, see the narrative discussion preceding the Grants of Plan-Based Awards in Fiscal 2018 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 \$31.32, the closing price of our common shares on February 2, 2019. If we achieve the maximum performance levels applicable to the PSU awards in fiscal 2018 and fiscal 2017, the aggregate market value for such PSU awards would be: (1) \$1,516,859 for Mr. Johnson; (2) \$1,936,422 for Ms. Bachmann; (3) \$1,264,075 for Mr. Schlonsky; (4) \$1,026,889 for Mr. Robins; and (5) \$1,476,393 for Mr. Campisi. The fiscal 2016 PSU awards vested on April 3, 2019. For additional information on the fiscal 2016 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 2018

The following table reflects all stock option exercises and the vesting of restricted stock held by each of our named executive officers during fiscal 2018.

| Name<br>(a)   | Option Awards  |   | Stock Awards  |  |
|---------------|--|---|---|--|
|               | Number of Shares<br>Acquired on Exercise<br>(#)<br>(b) | Value Realized<br>on Exercise<br>\$(1)<br>(c) | Number of Shares<br>Acquired on Vesting<br>(#)<br>(d) | Value Realized<br>on Vesting<br>\$(2)<br>(e) |
| Mr. Thorn     | -  | -   | -   | -  |
| Mr. Johnson   | -  | -   | 58,727  | 2,743,716                                    |
| Ms. Bachmann  | 40,000   | 200,000                                       | 66,628  | 3,098,614                                    |
| Mr. Schlonsky | -  | -   | 29,594  | 1,368,696                                    |
| Mr. Robins    | -  | -   | 16,104  | 712,623                                      |
| Mr. Campisi   | -  | -   | 184,048   | 8,119,343                                    |

- (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 (\$275,000 for calendar year 2018). Accordingly, the maximum aggregate Registrant Contribution that could be made to a named executive officer participating in the Savings and Supplemental Savings Plans was \$11,000 for fiscal 2018.

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 2018**

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<br>(a)   | Executive<br>Contributions<br>in Last FY<br>(\$) <sup>(1)</sup><br>(b) | Registrant<br>Contributions<br>in Last FY<br>(\$)<br>(c) | Aggregate<br>Earnings<br>in Last FY<br>(\$) <sup>(3)</sup><br>(d) | Aggregate<br>Withdrawals/<br>Distributions<br>(\$)<br>(e) | Aggregate<br>Balance<br>at Last FYE<br>(\$) <sup>(4)</sup><br>(f) |
|---------------|--|--|---|---|---|
| Mr. Thorn     | -  | -  | -   | -   | -   |
| Mr. Johnson   | 295,151  | -  | (26,679)  | -   | 2,195,888   |
| Ms. Bachmann  | 94,560   | -  | 165   | -   | 1,274,247   |
| Mr. Schlonsky | 62,557   | -  | (12,250)  | -   | 905,055   |
| Mr. Robins    | 11,389   | -  | 2,823   | -   | 141,408   |
| Mr. Campisi   | 334,994  | -  | 16,624  | 1,600,253   | 631,375   |

- (1) The amounts in this column are included in the "Salary" column of the Summary Compensation Table for fiscal 2018.
- (2) 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 2018 (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.
- (3) \$720,039, \$600,384, \$57,743, and \$86,792 of the amounts in this column were previously reported as compensation to 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 2018 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 2, 2019: (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 2018); or (5) in connection with a change in control. We entered into the Separation Agreement with Mr. Campisi

effective as of April 16, 2018. The Separation Agreement sets forth all of the payments and benefits (including the treatment of outstanding equity awards) that Mr. Campisi received 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) 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.

#### ***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
- upon achievement of the applicable performance trigger, except for Mr. Thorn's 2018 RSU award, prorated vesting of all unvested, outstanding RSU awards granted to the named executive officer. If Mr. Thorn is involuntarily terminated without cause, his 2018 RSU award will vest in full.

#### ***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;
- a prorated portion of the unvested PSUs granted under the 2012 LTIP and 2017 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 and 2017 LTIP would vest on the termination date.

#### ***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 and 2017 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 and 2017 LTIP would vest on the termination date.

#### ***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. Thorn, 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 target annual incentive award (2) a lump-sum payment equal to executive's target bonus prorated for the number of days the executive worked during the

applicable performance period prior to the executive's termination and (3) continued coverage under our health plans for up to two years after the date of termination.

If terminated without cause (including a constructive termination), Ms. Bachmann's employment agreement would entitle her 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 her for the taxes she would be liable for as a result of such continued healthcare coverage.

In addition, upon a change in control:

- 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 and 2017 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 2018.)

#### *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 Ms. Bachmann's 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 Ms. Bachmann's employment agreement, our 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 2018 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 2, 2019, the last day of fiscal 2018.
- 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 2018) of (1) a prorated portion of the unvested RSUs granted under the 2012 LTIP and 2017 LTIP, (2) a prorated portion of the unvested PSUs granted under the 2012 LTIP and 2017 LTIP in fiscal 2017 and fiscal 2018, respectively, assuming that the applicable performance goals will be achieved at the target level, and (3) the PSUs granted under the 2012 LTIP in fiscal 2016, that will vest based on our actual performance. 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 2018) of (1) a prorated portion of the unvested RSUs granted under the 2012 LTIP and 2017 LTIP, (2) a prorated portion of the unvested PSUs granted under the 2012 LTIP and 2017 LTIP in fiscal 2017 and fiscal 2018, respectively, assuming that the applicable performance goals will be achieved at the target level and (3) the PSUs granted under the 2012 LTIP in fiscal 2016 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 all unvested RSUs and PSUs that would have vested on an accelerated basis had a change in control occurred as of the end of fiscal 2018. These amounts do not reflect any equity awards that vested in fiscal 2018.
- The closing market price of our common shares on the final trading day on the NYSE during fiscal 2018 was \$31.32 per share.

*Bruce K. Thorn*

The following table reflects the payments that would have been due to Mr. Thorn in the event of a change in control and/or the termination of his employment on February 2, 2019.

|  | Event Occurring at February 2, 2019         |  |                    |   |                                   |  |  |
|--|---|--|--------------------|---|-----------------------------------|--|--|
|  | Voluntary Termination/<br>For Cause<br>(\$) | Involuntary Termination<br>without<br>Cause (\$) | Retirement<br>(\$) | Termination<br>upon<br>Disability<br>(\$) | Termination<br>upon<br>Death (\$) | Termination<br>in<br>Connection<br>with a<br>Change in<br>Control (\$) | Change in<br>Control<br>(without<br>termination)<br>(\$) |
| Salary/Salary Continuation (\$)                | -   | 2,200,000  | -                  | -   | -                                 | 2,200,000  | -  |
| Non-Equity Incentive Plan<br>Compensation (\$) | -   | -  | -                  | -   | -                                 | 4,125,000  | -  |
| Healthcare Coverage (\$)                       | -   | 56,998   | -                  | -   | -                                 | 56,998   | -  |
| Long-Term Disability Benefit (\$)              | -   | -  | -                  | 25,000                                    | -                                 | -  | -  |
| Outplacement Benefits (\$)                     | -   | 40,000   | -                  | -   | -                                 | -  | -  |
| Accelerated Equity Awards (\$)                 | -   | 2,170,207  | -                  | 219,980                                   | 219,980                           | 2,170,207  | 2,170,207  |
| Total (\$)                                     | -   | 4,467,205  | -                  | 244,980                                   | 219,980                           | 8,552,205  | 2,170,207  |

*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 2, 2019.

|  | Event Occurring at February 2, 2019         |  |                    |   |                                   |  |  |
|--|---|--|--------------------|---|-----------------------------------|--|--|
|  | Voluntary Termination/<br>For Cause<br>(\$) | Involuntary Termination<br>without<br>Cause (\$) | Retirement<br>(\$) | Termination<br>upon<br>Disability<br>(\$) | Termination<br>upon<br>Death (\$) | Termination<br>in<br>Connection<br>with a<br>Change in<br>Control (\$) | Change in<br>Control<br>(without<br>termination)<br>(\$) |
| Salary/Salary Continuation (\$)                | -   | 1,232,650  | -                  | -   | -                                 | 1,232,650  | -  |
| Non-Equity Incentive Plan<br>Compensation (\$) | -   | -  | -                  | -   | -                                 | 1,109,385  | -  |
| Healthcare Coverage (\$)                       | -   | 79,517   | -                  | -   | -                                 | 79,517   | -  |
| Long-Term Disability Benefit (\$)              | -   | -  | -                  | 25,000                                    | -                                 | -  | -  |
| Outplacement Benefits (\$)                     | -   | 25,000   | -                  | -   | -                                 | -  | -  |
| Accelerated Equity Awards (\$)                 | -   | 1,017,952  | -                  | 1,904,725                                 | 1,904,725                         | 3,063,226  | 3,063,226  |
| Total (\$)                                     | -   | 2,355,119  | -                  | 1,929,725                                 | 1,904,725                         | 5,484,778  | 3,063,226  |



*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 2, 2019.

|   | Event Occurring at February 2, 2019   |  |                 |                                  |                             |   |  |
|---|---------------------------------------|--|-----------------|----------------------------------|-----------------------------|---|--|
|   | 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 (\$)             | -                                     | 1,573,550                                  | -               | -                                | -                           | 1,573,550   | -  |
| Non-Equity Incentive Plan Compensation (\$) | -                                     | -  | -               | -                                | -                           | 1,888,260   | -  |
| Healthcare Coverage (\$)                    | -                                     | 79,517                                     | -               | -                                | -                           | 79,517  | -  |
| Long-Term Disability Benefit (\$)           | -                                     | -  | -               | 25,000                           | -                           | -   | -  |
| Outplacement Benefits (\$)                  | -                                     | 25,000                                     | -               | -                                | -                           | -   | -  |
| Accelerated Equity Awards (\$)              | -                                     | 1,299,544                                  | 2,198,357       | 2,431,596                        | 2,431,596                   | 3,910,458   | 3,910,458                                    |
| Total (\$)                                  | -                                     | 2,977,611                                  | 2,198,357       | 2,456,596                        | 2,431,596                   | 7,451,785   | 3,910,458                                    |

*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 2, 2019.

|   | Event Occurring at February 2, 2019   |  |                 |                                  |                             |   |  |
|---|---------------------------------------|--|-----------------|----------------------------------|-----------------------------|---|--|
|   | 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 (\$)             | -                                     | 1,027,200                                  | -               | -                                | -                           | 1,027,200   | -  |
| Non-Equity Incentive Plan Compensation (\$) | -                                     | -  | -               | -                                | -                           | 924,480   | -  |
| Healthcare Coverage (\$)                    | -                                     | 79,517                                     | -               | -                                | -                           | 79,517  | -  |
| Long-Term Disability Benefit (\$)           | -                                     | -  | -               | 25,000                           | -                           | -   | -  |
| Outplacement Benefits (\$)                  | -                                     | 25,000                                     | -               | -                                | -                           | -   | -  |
| Accelerated Equity Awards (\$)              | -                                     | 454,107                                    | -               | 1,435,006                        | 1,435,006                   | 2,552,661   | 2,552,661                                    |
| Total (\$)                                  | -                                     | 1,585,824                                  | -               | 1,460,006                        | 1,435,006                   | 4,583,858   | 2,552,661                                    |

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 2, 2019.

|   | Event Occurring at February 2, 2019   |  |                 |                                  |                             |   |  |
|---|---------------------------------------|--|-----------------|----------------------------------|-----------------------------|---|--|
|   | 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 (\$)             | -                                     | 947,600                                    | -               | -                                | -                           | 947,600   | -  |
| Non-Equity Incentive Plan Compensation (\$) | -                                     | -  | -               | -                                | -                           | 852,840   | -  |
| Healthcare Coverage (\$)                    | -                                     | 79,517                                     | -               | -                                | -                           | 79,517  | -  |
| Long-Term Disability Benefit (\$)           | -                                     | -  | -               | 25,000                           | -                           | -   | -  |
| Outplacement Benefits (\$)                  | -                                     | 25,000                                     | -               | -                                | -                           | -   | -  |
| Accelerated Equity Awards (\$)              | -                                     | 360,458                                    | -               | 1,042,475                        | 1,042,475                   | 1,941,206   | 1,941,206                                    |
| Total (\$)                                  | -                                     | 1,412,575                                  | -               | 1,067,475                        | 1,042,475                   | 3,821,163   | 1,941,206                                    |

David J. Campisi

The following table reflects the payments due to Mr. Campisi following his retirement on April 16, 2018.

|   | Event Occurring at April 16, 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       | -                                | -                           | -   | -  |
| Non-Equity Incentive Plan Compensation (\$) | -                                     | -  | -               | -                                | -                           | -   | -  |
| Healthcare Coverage (\$)                    | -                                     | -  | 103,838         | -                                | -                           | -   | -  |
| Long-Term Disability Benefit (\$)           | -                                     | -  | -               | -                                | -                           | -   | -  |
| Outplacement Benefits (\$)                  | -                                     | -  | 40,000          | -                                | -                           | -   | -  |
| Accelerated Equity Awards (\$)              | -                                     | -  | 4,269,296       | -                                | -                           | -   | -  |
| Total (\$)                                  | -                                     | -  | 6,713,134       | -                                | -                           | -   | -  |

**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 with the interests of 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 2018 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 2018, 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 2018, the Compensation Committee and other outside directors structured a significant portion of the compensation awarded to our named executive officers for fiscal 2018 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 2018 annual incentive awards were structured so that the target bonus would be earned only if we achieved the operating profit for fiscal 2018 projected in our annual corporate operating plan. Based on our adjusted operating profit in fiscal 2018, our named executive officers did not earn an annual incentive award for fiscal 2018.
- *Performance Share Unit Awards.* All of our named executive officers received a significant portion (60%) of their equity awards in the form of PSUs (except for Mr. Thorn and Mr. Campisi who did not receive a PSU award for fiscal 2018). The PSUs awarded to our named executive officers in fiscal 2018 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 \$3.91 and ROIC of 17.49%, as adjusted, we achieved 79.8% of the targeted goal for EPS and 76.0% 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 2018.
- *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 2019 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.**

### **2018 CEO PAY RATIO**

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 402(u) of Regulation S-K, the Company is disclosing the following information about the relationship of the annual total compensation of our CEO and the median of the annual total compensation of our employees (other than the CEO) for our 2018 fiscal year:

- The total annualized compensation of our CEO (Bruce K. Thorn) was \$4,670,326.
- The annual total compensation of our median employee was \$8,746.
- The ratio of the total annualized compensation of our CEO to the annual total compensation of our median employee was 534 to 1.

As permitted by SEC rules, we used the same median employee that we identified for purposes of our 2017 fiscal year pay ratio disclosure to calculate our 2018 fiscal year pay ratio. We believe our continued use of the median employee we identified for our 2017 fiscal year is appropriate because no change has occurred in our employee population or our employee compensation arrangements that we reasonably believe would result in a significant change to our pay ratio disclosure.

We identified our median employee for our fiscal year 2017 pay ratio using the methodology and the following material assumptions and adjustments. 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.

We determined the annual total compensation for fiscal year 2018 of our median employee (who was calculated to be a part-time store associate) 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 total annualized compensation of our CEO for fiscal year 2018, we included Mr. Thorn's Bonus and Stock Award as reported in the Summary Compensation Table of this Proxy Statement and we annualized Mr. Thorn's Salary and all components of All Other Compensation (except for relocation expenses and matching charitable contributions) reported in 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 2018.

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 2018, our management completed an assessment 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 assessment and provided oversight and advice to management during the process. In connection with its oversight, the Audit Committee received periodic updates provided by management 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 assessment thereof in fiscal 2019. 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 2018. 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 2019.

## 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 2018 and 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:

| <u>(\$ in thousands)</u> | <u>Fiscal 2017</u><br><u>(\$)</u> | <u>Fiscal 2018</u><br><u>(\$)</u> |
|--------------------------|-----------------------------------|-----------------------------------|
| Audit Fees               | 1,472                             | 1,400                             |
| Audit-Related Fees (1)   | 157                               | 125                               |
| Tax Fees                 | 40                                | 40                                |
| All Other Fees (2)       | <u>2</u>                          | <u>2</u>                          |
| Total Fees               | 1,671                             | 1,567                             |

- (1) For fiscal 2017 and fiscal 2018, the audit-related fees principally related to accounting consultation.
- (2) For fiscal 2017 and fiscal 2018, 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 2018 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 2018 be included in our Form 10-K for filing with the SEC.

Members of the Audit Committee  
Marla C. Gottschalk, Chair  
Sebastian DiGrande  
Cynthia T. Jamison  
Christopher J. McCormick  
Wendy L. Schoppert

## PROPOSAL THREE: RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2019

At its March 5, 2019 meeting, the Audit Committee appointed Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2019, 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 2019.**

### **SHAREHOLDER PROPOSALS**

Any proposals of shareholders which are intended to be presented at our 2020 annual meeting of shareholders must be received by our Corporate Secretary at our corporate offices on or before December 18, 2019 to be eligible for inclusion in our 2020 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 2020 annual meeting of shareholders without inclusion of that proposal in our 2020 proxy materials and written notice of the proposal is not received by our Corporate Secretary at our corporate offices on or before March 2, 2020, or if we meet other requirements of the SEC rules, proxies solicited by the Board for our 2020 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 of Proxy Materials (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 16, 2019  
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 2, 2019**

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)

4900 E. Dublin-Granville Road, Columbus, Ohio

(Address of principal executive offices)

06-1119097

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

43081

(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 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 an 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 \$1,807,128,260 on August 4, 2018, 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 29, 2019, was 40,142,960.

**Documents Incorporated by Reference**

Portions of the Registrant's Proxy Statement for its 2019 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 2, 2019**

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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 discount retailer operating in the United States (“U.S.”) (see the discussion below under the caption “Merchandise”). At February 2, 2019, we operated a total of 1,401 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> |
|--------------------|------------------------|------------------------|----------------------|
| 2019               | 52                     | February 3, 2019       | February 1, 2020     |
| 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     |

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.

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 4900 E. Dublin-Granville Road, Columbus, Ohio 43081, and our telephone number is (614) 278-6800.

## Merchandise

We focus our merchandise strategy on providing outstanding value to Jennifer in all of our merchandise categories. We utilize traditional sourcing methods and in certain merchandise categories also take advantage of closeout channels to enhance our ability 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 based 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 focusing on our customers' expectations has improved our ability to provide a desirable assortment of offerings in our merchandise categories.

## 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:

|  | 2018  | 2017  | 2016  | 2015  | 2014  |
|--|-------|-------|-------|-------|-------|
| Stores open at the beginning of the year | 1,416 | 1,432 | 1,449 | 1,460 | 1,493 |
| Stores opened during the year            | 32    | 24    | 9     | 9     | 24    |
| Stores closed during the year            | (47)  | (40)  | (26)  | (20)  | (57)  |
| Stores open at the end of the year       | 1,401 | 1,416 | 1,432 | 1,449 | 1,460 |

For additional information about our real estate strategy, see the discussion under the caption "Operating Strategy - Real Estate" in the accompanying "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") in this Form 10-K.

The following table details our U.S. stores by state at February 2, 2019:

|             |     |                |    |                         |              |
|-------------|-----|----------------|----|-------------------------|--------------|
| Alabama     | 29  | Maine          | 6  | Ohio                    | 95           |
| Arizona     | 34  | Maryland       | 25 | Oklahoma                | 18           |
| Arkansas    | 11  | Massachusetts  | 22 | Oregon                  | 15           |
| California  | 153 | Michigan       | 43 | Pennsylvania            | 66           |
| Colorado    | 18  | Minnesota      | 3  | Rhode Island            | 1            |
| Connecticut | 14  | Mississippi    | 14 | South Carolina          | 34           |
| Delaware    | 5   | Missouri       | 24 | Tennessee               | 47           |
| Florida     | 104 | Montana        | 3  | Texas                   | 111          |
| Georgia     | 51  | Nebraska       | 3  | Utah                    | 8            |
| Idaho       | 6   | Nevada         | 13 | Vermont                 | 4            |
| Illinois    | 33  | New Hampshire  | 6  | Virginia                | 38           |
| Indiana     | 45  | New Jersey     | 27 | Washington              | 26           |
| Iowa        | 3   | New Mexico     | 11 | West Virginia           | 16           |
| Kansas      | 7   | New York       | 64 | Wisconsin               | 9            |
| Kentucky    | 40  | North Carolina | 72 | Wyoming                 | 2            |
| Louisiana   | 21  | North Dakota   | 1  |                         |              |
|             |     |                |    | <b>Total stores</b>     | <b>1,401</b> |
|             |     |                |    | <b>Number of states</b> | <b>47</b>    |

Of our 1,401 stores, 33% operate in four states: California, Texas, Florida, and Ohio, and net sales from stores in these states represented 34% of our 2018 net sales. We have a concentration in these states based on their size, population, and customer base.

## **Associates**

At February 2, 2019, we had approximately 35,600 active associates comprised of 10,900 full-time and 24,700 part-time associates. Approximately 69% of the associates we employed during 2018 were employed on a part-time basis. Temporary associates hired for the holiday selling season increased the total number of associates to a peak of approximately 38,400 in 2018. 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, including fulfillment logistics and technological innovation, 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 2018, we purchased approximately 25% of our merchandise directly from overseas vendors, including approximately 21% from vendors located in China. Additionally, a significant amount of our domestically-purchased merchandise is manufactured abroad. As a result, a significant portion of our merchandise supply is subject to certain risks 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. 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 begin 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 supplements our 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 awareness, including television, internet, social media, e-mail, in-store point-of-purchase, and print media.

Over the past few years, we have refined our brand identity to accentuate our friendly service and community orientation. We are focused on serving Jennifer with a friendly approach and positive shopping experience. Another aspect of community-oriented approach to retailing is our focus on supporting both local and national causes that aid the communities in which we do business. On a local level, we invest and support our associates throughout our geographic regions with our point of sale campaigns, and the positive impacts those campaigns generate for our foundation partners. We serve the community on a national level through our Big Lots Foundation which focuses on healthcare, housing, hunger, and education. We believe our approach to retailing differentiates us from the competition and allows us to make a difference in the communities we serve.

In all of our markets, we design and distribute printed advertising circulars, through a combination of newspaper insertions and mailings. In 2018, we distributed multi-page circulars representing 28 weeks of advertising coverage, which was consistent with 2017. 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. At February 2, 2019, our BIG Rewards program totaled over 17 million active members who had made a purchase in our stores in the last 12 months.

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 1.8%, 1.7%, and 1.8% in 2018, 2017, and 2016, 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 2018, 2017, and 2016 by fiscal quarter:

|  | First | Second | Third | Fourth |
|--|-------|--------|-------|--------|
| <b>Fiscal Year 2018</b>                              |       |        |       |        |
| Net sales as a percentage of full year               | 24.2% | 23.3%  | 22.0% | 30.5%  |
| Operating profit (loss) as a percentage of full year | 20.8  | 15.7   | (4.4) | 67.9   |
| <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   |

## 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 well as our definitive proxy materials filed pursuant to section 14 of the Exchange Act, as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”). 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. 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 item 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.

This Form 10-K and in our 2018 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 and in oral statements that may be made by us. Such forward-looking 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 made or to be made by us.

You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date made. 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 future Annual Reports on Form 10-K, 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 forward-looking statements made or to be made by us 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. This discussion is provided 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 refine and 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 both refine our operating and strategic plans and execute the business activities associated with our refined operating and strategic plans, including cost savings initiatives, could impact our ability to meet our operating performance targets. Additionally, we must be able to effectively continuously adjust our operating and strategic plans over time to adapt to an ever-changing marketplace. See the 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, improved performance by our competitors, or an inability to distinguish our brand from 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. Our operations 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, including China, for significant amounts of merchandise, including a significant amount of our domestically-purchased merchandise. Our business may be materially adversely affected by risks associated with international trade, including the impact of tariffs recently imposed by the U.S. with respect to certain consumer goods imported from China.***

Global sourcing of many of the products we sell is an important factor in driving higher operating profit. During 2018, we purchased approximately 25% of our products directly from overseas vendors, including 21% from vendors located in China. Additionally, 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 risks 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 and tariffs (including retaliation by the U.S. against foreign practices or by foreign countries against U.S. practices), the financial stability of vendors, or merchandise quality issues. 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.

On March 22, 2018, President Trump, pursuant to Section 301 of the Trade Act of 1974, directed the U.S. Trade Representative (“USTR”) to impose tariffs on \$50 billion worth of imports from China. On June 15, 2018, the USTR announced its intention to impose an incremental tariff of 25% on \$50 billion worth of imports from China comprised of (1) 818 product lines valued at \$34 billion (“List 1”) and (2) 284 additional product lines valued at \$16 billion (“List 2”). The List 1 tariffs went into effect on July 6, 2018 and the List 2 tariffs went into effect on August 23, 2018 (with respect to 279 of the 284 originally targeted product lines). On July 10, 2018, the USTR announced its intention to impose an incremental tariff of 10% on another \$200 billion worth of imports from China comprised of 6,031 additional product lines (“List 3”) following the completion of a public notice and comment period. On August 1, 2018, President Trump instructed the USTR to consider increasing the tariff on the List 3 products from 10% to 25%. On September 17, 2018, the USTR released the final List 3 covering 5,745 full or partial lines of the 6,031 originally targeted product lines and announced that the List 3 tariffs will be implemented in two phases. On September 24, 2018, a 10% incremental tariff went into effect with respect to the List 3 products. The List 3 tariff was scheduled to increase to 25% on January 1, 2019. However, on December 1, 2018, the White House delayed implementation of the List 3 tariff increase until March 1, 2019, to allow Chinese and U.S. leaders to begin negotiations on various policy issues. On March 5, 2019, the USTR further delayed the implementation of List 3 tariff increase until further notice. The List 3 tariffs could increase at any time depending on the progress of negotiations.

Certain of our products and components of our products that are imported from China are currently included in the product lines subject to the effective and proposed tariffs. As a result, we are evaluating the potential impact of the effective and proposed tariffs on our supply chain, costs, sales and profitability and are considering strategies to mitigate such impact, including reviewing sourcing options, filing requests for exclusion from the tariffs with the USTR for certain product lines and working with our vendors and merchants. Given the uncertainty regarding the scope and duration of the effective and proposed tariffs, as well as the potential for additional trade actions by the U.S. or other countries, the impact on our operations and results is uncertain and could be significant. We can provide no assurance that any strategies we implement to mitigate the impact of such tariffs or other trade actions will be successful. To the extent that our supply chain, costs, sales or profitability are negatively affected by the tariffs or other trade actions, our business, financial condition and results of operations may be materially adversely affected.

***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/or 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. Lastly, as we re-locate our distribution center operations in California, we may experience increased selling and administrative expenses associated with the transition during 2019.

***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. 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 our information technology or computer systems are damaged or cease to function properly, 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, obsolescence, 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 vendor-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 2018 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 the 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/or 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 increasing sales while managing the occupancy cost of each of our stores. The primary component of our sales growth strategy is increasing our comparable store sales, which will require renewing many leases each year. Additional components of our sales growth strategy include relocating certain existing stores to new locations within existing markets and opening 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.

***If our investment in our Store of the Future remodel program is not favorably received by our customers, our financial performance may be negatively affected.***

We have embarked upon a significant capital improvement project to renovate a significant portion of our stores during the coming three to five years through our Store of the Future remodel program. This multi-year program could be the largest capital improvement program in our corporate history. If we are unable to effectively manage the execution of this program and efficiently utilize our capital expenditures, our financial position, results of operations, and liquidity may be negatively affected.

***If we are unable to comply with the terms of the 2018 Credit Agreement, our capital resources, financial condition, results of operations, and liquidity may be materially adversely effected.***

We may need to borrow funds under our \$700 million five-year unsecured credit facility (“2018 Credit Agreement”) from time to time, depending on operating or other cash flow requirements. The 2018 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 to cross-default provisions under the synthetic lease agreement (the “Synthetic Lease”) that we entered in connection with our new distribution center in California. A violation of any of these covenants may permit the lenders to restrict our ability to borrow additional funds, provide letters of credit under the 2018 Credit Agreement and may require us to immediately repay 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).

***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, case law and regulations, including changes that increase our effective tax rate, comprehensive tax reform, or other matters related to taxation;
- Changes in accounting standards, including new interpretations and updates to current standards;
- A downgrade in our credit rating could negatively affect our ability to access capital or increase our borrowing costs;
- Events or circumstances could occur which could create bad publicity for us or for the 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 31,800 square feet, of which an average of 22,300 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 2018 was approximately \$1.7 million, including the cost of constructions, fixtures, and 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 remains 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 2, 2019.

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 approximately five to ten years with multiple five-year renewal options. Forty 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 14 month-to-month leases and 53 owned locations.

| <b>Fiscal Year:</b> | <b>Expiring Leases</b> | <b>Leases Without Options</b> |
|---------------------|------------------------|-------------------------------|
| 2019                | 224                    | 43                            |
| 2020                | 240                    | 29                            |
| 2021                | 270                    | 56                            |
| 2022                | 197                    | 36                            |
| 2023                | 225                    | 47                            |
| Thereafter          | 217                    | 11                            |

## Warehouse and Distribution

At February 2, 2019, 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 2018. 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 2, 2019, 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                                | 255                     |
| Columbus, OH         | 1989        | 3,559                                | 312                     |
| Montgomery, AL       | 1996        | 1,411                                | 301                     |
| Tremont, PA          | 2000        | 1,295                                | 330                     |
| Durant, OK           | 2004        | 1,297                                | 203                     |
| <b>Total</b>         |             | <b>8,985</b>                         | <b>1,401</b>            |

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 late 2017 and we expect the transition to begin in the summer of 2019.

### Corporate Office

In 2018, we moved our corporate headquarters to a new leased facility within Columbus, Ohio.

### 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.

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 2, 2019 were as follows:

| Name                  | Age | Offices Held   | Officer Since |
|-----------------------|-----|--|---------------|
| Bruce K. Thorn        | 51  | President and Chief Executive Officer  | 2018          |
| Lisa M. Bachmann      | 57  | Executive Vice President, Chief Merchandising and Operating Officer                | 2002          |
| Timothy A. Johnson    | 51  | Executive Vice President, Chief Administrative Officer and Chief Financial Officer | 2004          |
| Michael A. Schlonsky  | 52  | Executive Vice President, Human Resources  | 2000          |
| Stephen M. Haffer     | 53  | Senior Vice President, Chief Customer Officer                                      | 2018          |
| Nicholas E. Padovano  | 55  | Senior Vice President, Store Operations  | 2014          |
| Ronald A. Robins, Jr. | 55  | Senior Vice President, General Counsel and Corporate Secretary                     | 2015          |

*Bruce K. Thorn* is our President and Chief Executive Officer. Before joining Big Lots in September 2018, he served as President and Chief Operating Officer of Tailored Brands, Inc., a leading specialty retailer of men's tailored clothing and formalwear. Bruce also held various enterprise-level roles with PetSmart, Inc., most recently as Executive Vice President, Store Operations, Services and Supply Chain, as well as leadership positions with Gap, Inc., Cintas Corp, LESCO, Inc. and The United States Army.

*Lisa M. Bachmann* is responsible for merchandising and global sourcing, merchandise presentation, and merchandise planning and allocation. 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, and asset protection. Mr. Johnson was promoted to Executive Vice President, Chief Administrative Officer and Chief Financial Officer in August 2015. 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 talent management and oversight of human resources. He was promoted to Executive Vice President in August 2015. 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.

*Nicholas E. Padovano* is responsible for store operations. Mr. Padovano joined us in 2014 as Senior Vice President, Store Operations. Prior to joining us, Mr. Padovano was an executive at the Hudson Bay Company, a department store retailer, where he was responsible for store operations of the Bay and Zellers brands. Additionally, Mr. Padovano served as Head of Stores, Distribution and Supply Chain for Lowes Canada, a home improvement retailer.

*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 sets forth information regarding our repurchase of common shares during the fourth fiscal quarter of 2018:

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

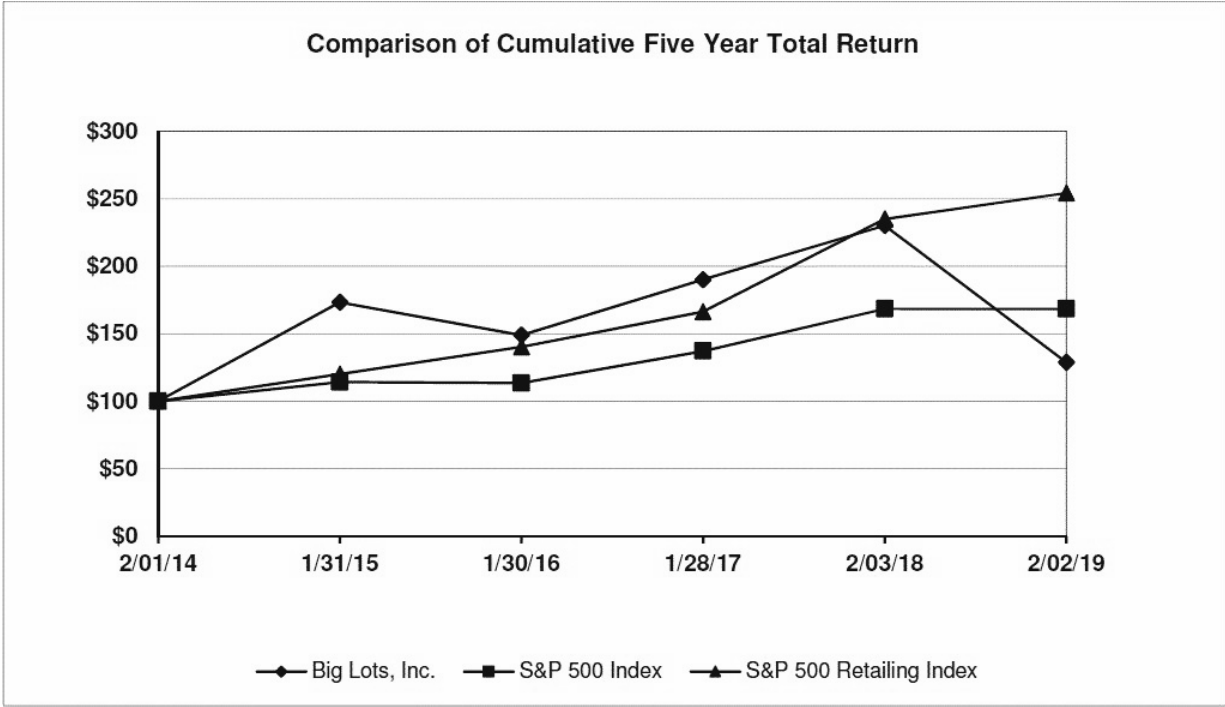
| Period                               | (a) Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | (b) Average<br>Price Paid<br>per Share <sup>(1)</sup> | (c) Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | (d) Approximate<br>Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>Under the Plans or<br>Programs |
|--------------------------------------|--|---|--|---|
| November 4, 2018 - December 1, 2018  | —  | \$ —  | —  | \$ —  |
| December 2, 2018 - December 29, 2018 | —  | 40.07   | —  | —   |
| December 30, 2018 - February 2, 2019 | —  | 31.36   | —  | —   |
| Total                                | —  | \$ 38.97  | —  | \$ —  |

- (1) In December 2018 and January 2019, in connection with the vesting of certain outstanding restricted stock units, we acquired 69 and 10 of our common shares, respectively, which were withheld to satisfy minimum statutory income tax withholdings.

On March 6, 2019, our Board of Directors authorized a program for the repurchase of up to \$50.0 million of our common shares (“2019 Repurchase Program”). Pursuant to the 2019 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 2019 Repurchase Program will be available to meet obligations under our equity compensation plans and for general corporate purposes. The 2019 Repurchase Program has no scheduled termination date.

At the close of trading on the NYSE on March 29, 2019, there were approximately 636 registered holders of record of our common shares.

The following graph and table compares, for the five fiscal years ended February 2, 2019, 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 January 31, 2015, January 30, 2016, January 28, 2017, February 3, 2018 and February 2, 2019. The graph and table assume that \$100 was invested on February 1, 2014, 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             |              |              |              |              |              |              |
| Company / Index         | Base Period  |              |              |              |              |              |
|                         | January 2014 | January 2015 | January 2016 | January 2017 | January 2018 | January 2019 |
| Big Lots, Inc.          | \$ 100.00    | \$ 173.38    | \$ 148.96    | \$ 190.13    | \$ 230.14    | \$ 128.76    |
| S&P 500 Index           | 100.00       | 114.22       | 113.46       | 137.14       | 168.46       | 168.36       |
| S&P 500 Retailing Index | \$ 100.00    | \$ 120.09    | \$ 140.26    | \$ 166.28    | \$ 234.96    | \$ 254.29    |

## 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         |                     |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2018 <sup>(a)</sup> | 2017 <sup>(b)</sup> | 2016 <sup>(a)</sup> | 2015 <sup>(a)</sup> | 2014 <sup>(a)</sup> |
| Net sales  | \$ 5,238,105        | \$ 5,264,362        | \$ 5,193,995        | \$ 5,190,582        | \$ 5,177,078        |
| Cost of sales (exclusive of depreciation expense shown separately below) | 3,116,210           | 3,121,920           | 3,094,576           | 3,123,442           | 3,133,124           |
| Gross margin   | 2,121,895           | 2,142,442           | 2,099,419           | 2,067,140           | 2,043,954           |
| Selling and administrative expenses                                      | 1,778,416           | 1,723,996           | 1,730,956           | 1,708,499           | 1,699,764           |
| Depreciation expense   | 124,970             | 117,093             | 120,460             | 122,854             | 119,702             |
| Operating profit   | 218,509             | 301,353             | 248,003             | 235,787             | 224,488             |
| Interest expense   | (10,338)            | (6,711)             | (5,091)             | (3,683)             | (2,588)             |
| Other income (expense)   | (558)               | 712                 | 1,387               | (5,254)             | —                   |
| Income from continuing operations before income taxes                    | 207,613             | 295,354             | 244,299             | 226,850             | 221,900             |
| Income tax expense   | 50,719              | 105,522             | 91,471              | 83,977              | 85,239              |
| Income from continuing operations  | 156,894             | 189,832             | 152,828             | 142,873             | 136,661             |
| Loss from discontinued operations, net of tax                            | —                   | —                   | —                   | —                   | (22,385)            |
| Net income   | \$ 156,894          | \$ 189,832          | \$ 152,828          | \$ 142,873          | \$ 114,276          |
| Earnings per common share - basic:                                       |                     |                     |                     |                     |                     |
| Continuing operations  | \$ 3.84             | \$ 4.43             | \$ 3.37             | \$ 2.83             | \$ 2.49             |
| Discontinued operations  | —                   | —                   | —                   | —                   | (0.41)              |
|  | \$ 3.84             | \$ 4.43             | \$ 3.37             | \$ 2.83             | \$ 2.08             |
| Earnings per common share - diluted:                                     |                     |                     |                     |                     |                     |
| Continuing operations  | \$ 3.83             | \$ 4.38             | \$ 3.32             | \$ 2.80             | \$ 2.46             |
| Discontinued operations  | —                   | —                   | —                   | —                   | (0.40)              |
|  | \$ 3.83             | \$ 4.38             | \$ 3.32             | \$ 2.80             | \$ 2.06             |
| <b>Weighted-average common shares outstanding:</b>                       |                     |                     |                     |                     |                     |
| Basic  | 40,809              | 42,818              | 45,316              | 50,517              | 54,935              |
| Diluted  | 40,962              | 43,300              | 45,974              | 50,964              | 55,552              |
| <b>Cash dividends declared per common share</b>                          | \$ 1.20             | \$ 1.00             | \$ 0.84             | \$ 0.76             | \$ 0.51             |
| <b>Balance sheet data:</b>   |                     |                     |                     |                     |                     |
| Total assets   | \$ 2,023,347        | \$ 1,651,726        | \$ 1,607,707        | \$ 1,640,370        | \$ 1,635,891        |
| Working capital  | 489,443             | 432,365             | 315,784             | 315,984             | 411,446             |
| Cash and cash equivalents  | 46,034              | 51,176              | 51,164              | 54,144              | 52,261              |
| Long-term obligations under bank credit facility                         | 374,100             | 199,800             | 106,400             | 62,300              | 62,100              |
| Shareholders' equity   | \$ 693,041          | \$ 669,587          | \$ 650,630          | \$ 720,470          | \$ 789,550          |
| <b>Cash flow data:</b>   |                     |                     |                     |                     |                     |
| Cash provided by operating activities                                    | \$ 234,060          | \$ 250,368          | \$ 311,925          | \$ 342,352          | \$ 318,562          |
| Cash used in investing activities  | \$ (376,473)        | \$ (156,508)        | \$ (84,701)         | \$ (113,193)        | \$ (90,749)         |
| <b>Store data:</b>   |                     |                     |                     |                     |                     |
| Total gross square footage   | 44,500              | 44,638              | 44,570              | 44,914              | 45,134              |
| Total selling square footage   | 31,217              | 31,399              | 31,519              | 31,775              | 32,006              |
| Stores open at end of the fiscal year                                    | 1,401               | 1,416               | 1,432               | 1,449               | 1,460               |

(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 2018 and 2016 were comprised of 52 weeks. Fiscal year 2017 was comprised of 53 weeks. Fiscal year 2019 will be comprised of 52 weeks.

### Operating Results Summary

The following are the results from 2018 that we believe are key indicators of our operating performance when compared to 2017.

- Net sales decreased \$26.3 million, or 0.5%.
- Comparable store sales for stores open at least fifteen months, including e-commerce, increased \$62.3 million, or 1.2%.
- Gross margin dollars decreased \$20.5 million with a 20 basis point decrease in gross margin rate to 40.5% of sales.
- Selling and administrative expenses increased \$54.4 million. As a percentage of net sales, selling and administrative expenses increased 130 basis points to 34.0% of net sales.
- Operating profit rate decreased 150 basis points to 4.2%.
- Diluted earnings per share decreased 12.6% to \$3.83 per share, compared to \$4.38 per share in 2017.
- Our return on invested capital decreased to 16.3% from 22.9%.
- Inventory of \$969.6 million represented a \$96.8 million increase, or 11.1%, from 2017.
- We acquired approximately 2.4 million of our outstanding common shares for \$100.0 million, under our 2018 Repurchase Program (as defined below in “Capital Resources and Liquidity”), at a weighted average price of \$42.11 per share.
- We declared and paid four quarterly cash dividends in the amount of \$0.30 per common share, for a total paid amount of approximately \$50.6 million.

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

|  | 2018   | 2017   | 2016   |
|--|--------|--------|--------|
| Net sales  | 100.0% | 100.0% | 100.0% |
| Cost of sales (exclusive of depreciation expense shown separately below) | 59.5   | 59.3   | 59.6   |
| Gross margin   | 40.5   | 40.7   | 40.4   |
| Selling and administrative expenses                                      | 34.0   | 32.7   | 33.3   |
| Depreciation expense   | 2.4    | 2.2    | 2.3    |
| Operating profit   | 4.2    | 5.7    | 4.8    |
| Interest expense   | (0.2)  | (0.1)  | (0.1)  |
| Other income (expense)   | (0.0)  | 0.0    | 0.0    |
| Income before income taxes   | 4.0    | 5.6    | 4.7    |
| Income tax expense   | 1.0    | 2.0    | 1.8    |
| Net income   | 3.0%   | 3.6%   | 2.9%   |

See the discussion below under the captions “2018 Compared To 2017” and “2017 Compared To 2016” for additional details regarding the specific components of our operating results.

In 2018, our selling and administrative expenses include \$7.0 million of costs associated with the retirement of our former chief executive officer and \$3.5 million of costs associated with the settlement of our shareholder litigation matter, which is described in further detail in note 10 to the accompanying consolidated financial statements.

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.

## **Operating Strategy**

The core principle of our operating strategy has been to consistently re-evaluate the regularly shifting needs and wants of our core customer, Jennifer, to ensure that our customer value proposition stays current and relevant to her. This core principle 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. As a result of the continual re-evaluation process of our strategy, we have shifted our focus to what we call “ownable” or “winnable” merchandise categories, as we believe this is where Jennifer has given us the most latitude in providing her with merchandise that meets her needs and presents a surprise and delight factor in our stores. 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. She expects us to employ a friendly, customer-first mentality, which includes delivering a product assortment that meets her everyday needs and delivers exciting surprises that we intend to drive discretionary purchases.

In 2019, we expect to continue to review our operating strategy, and anticipate:

- Earnings per diluted share to be \$3.55 to \$3.75, which excludes the impact of potential strategic review and transformation costs.
- Comparable store sales increase in the low single digits.
- Opening approximately 50 new stores and closing up to 45 stores.
- Cash flow (operating activities less capital expenditures) of approximately \$95 to \$105 million.
- Cash returned to shareholders of approximately \$100 million, through our quarterly dividend program and the 2019 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 “2018 Compared To 2017.”

## ***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 both her needs and her wants. We are committed to providing Jennifer value priced products with high levels of QBFV. Our operating strategy evaluates our product mix by focusing on downsizing, or potentially eliminating, those departments within our merchandise categories and product offerings that we believe Jennifer does not prioritize, does not believe we have the “right to play” in or where we believe we do not maintain a competitive advantage. Additionally, our operating strategy focuses on enhancing the assortment of those product offerings and departments within our merchandise categories that Jennifer has communicated to us are important to her shopping experience, and that we believe provide us with a competitive advantage. We have narrowed our focus to internally define our merchandise categories as “ownable” or “winnable,” and we plan to deepen our commitment to expanding our offerings in these areas. 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 us, 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 and buy us online anytime and anywhere, and we invite her into our stores 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 décor offerings. Supplementing our merchandising and presentation strategies, we provide multiple third-party financing options for our customers who may be more challenged for approval in traditional credit channels. Our financing partners are solely responsible for the credit approval decisions and carry the financial risk.
- 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 and 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 shown the potential to be an “ownable” category based on sales performance 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 furnish Jennifer’s home with the décor that compliments an in-store furniture purchase. We have worked to develop a “solutions” approach to complete a room through our cross-merchandising efforts, particularly color palette coordination, when combining our Soft Home offerings with our Furniture and Seasonal categories. 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 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, such as over-the-counter medications. We believe that we have added top brands to our “never out” programs in Consumables and that our assortment and value proposition will continue to differentiate us in this highly competitive industry. In recent customer surveys, our customers have indicated they have a greater association of value in our Consumables assortment than our Food offerings, and as such, we are evaluating our mix and allocation between these merchandise categories.

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

- We believe that 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 re-allocated linear footage to the “ownable” and “winnable” categories. Our product assortments in these categories focus on value, and savings in comparison to competitors, in areas such as food prep, table top, home maintenance, small appliances, and electronics.

Our merchandising management team is aligned with our merchandise categories, and their primary goal is to increase our total company comparable store sales (“comp” or “comps”). Our review of the performance of the members of our merchandise management team focuses 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 our convenience categories, we believe our merchandise management team can effectively address the changing shopping behaviors of our customers and implement more focused offerings within each merchandise category, which we believe will lead to continued comp growth.

### ***Marketing***

The top priority of our marketing activities is to increase our net sales and comps. Over the past few years, we have reviewed our brand identity to gain further insights into Jennifer’s perception of us and how best to improve the overall effectiveness of our marketing efforts. Our research has affirmed that Jennifer is deal-driven and comes to us for our value-priced merchandise assortment. She appreciates our ability to assist her in fashioning and furnishing her home so that she can enjoy the space with family and friends. We believe our strong price value perception and the surprise and delight factor in our stores enhances our ability to effectively connect with Jennifer in a way that lets her understand when shopping at Big Lots, she can afford to live Big, while saving Lots.

In an effort to align our messaging with the positive aspects of Jennifer’s perception of our brand, we have focused our marketing efforts on driving our value proposition in every season and category. 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 an increased understanding of our value proposition with our core customer and to attempt to communicate that message to new potential customers. These outlets enable us to deliver our message directly to Jennifer and provide her with the opportunity to share direct feedback with us, which can enhance our understanding of what is most important to her and how we can 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. We launched a new loyalty program, the BIG Rewards Program in November of 2017, to more effectively incentivize our loyal customers and encourage new membership by highlighting the significant features and benefits. Our new loyalty program rewards Jennifer with a coupon after every third purchase, a birthday surprise offer, 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. At February 2, 2019, our BIG Rewards Program had over 17 million active members (defined as having made a purchase in the last 12 months) and we have a focused concerted efforts to grow the membership base in our Big Rewards Program in 2019.

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 also shifted towards using more digital streaming media in concentrated markets of our stores, 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***

In 2017, we introduced a new in-store shopping experience with our “Store of the Future” concept, which more deeply incorporates our 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 and local events. The wall behind the check-out counter thanks Jennifer for shopping us. We personalized the signage throughout the store and back room to reflect our friendly and community-oriented values.

See “Real Estate” below for the projected roll-out schedule for the Store of the Future concept.

In addition to implementing our Store of the Future concept, we are also reviewing cross-category presentation opportunities through the lens of “life’s occasions,” where we display our product offerings in a solution format, with items from various departments placed in vignettes to promote occasions, such as fall tailgating. The intent of these cross-category presentations is to demonstrate the breadth and value of products that we offer to Jennifer in one convenient experience. Our expectation is to re-introduce Jennifer to the “treasure” that we offer, while removing the challenges of the “hunt” from the experience.

In addition to our efforts to improve the in-store shopping experience, we continue to focus on improving our e-commerce platform. Our integrated e-commerce platform has offered a narrowed assortment of our in-store offerings. In 2017, we began offering expanded fabric and color options on select products on our e-commerce platform in our Furniture and Seasonal categories, including items only available online. In 2019, we intend to integrate our in-store experience and our e-commerce platform by launching our “buy on-line, pick-up in store” solution. Jennifer will be able to identify and purchase products on-line for easy pick-up in one of our stores. Additionally, we expect to expand our on-line assortment to offer a broader assortment of goods for a more complete shopping experience.

Lastly, we continue to offer a private label credit card and our Easy Leasing lease-to-own solutions for customer financing and a coverage/warranty program, focused on our Furniture and Seasonal merchandise categories, to round out Jennifer’s experience. Our private label credit card provides access to revolving credit, through a third party, for use on both larger ticket items and daily purchases. Our Easy Leasing lease-to-own program provides a single use opportunity for access to third-party financing. Our coverage/warranty program provides a method for obtaining multi-year warranty coverage for furniture and our living purchases.

### ***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. After studying our store design and layout in relation to the changing retail landscape and needs of our core customers and testing certain design and layout revisions, we rolled-out our Store of the Future layout to two geographic test markets in 2017. In 2018, we began the chain-wide conversion to our Store of the Future layout and converted 164 stores through either remodels or new openings. Currently, we intend to convert the majority of the remainder of our store fleet over approximately the next three years. As we increase our capital investment in our stores, we have collaborated with our landlords to negotiate longer lease terms and renewal options.

As discussed in “Item 2. Properties,” of this Form 10-K, we have 224 store leases that will expire in 2019. During 2019, we anticipate opening approximately 50 new stores and closing up to 45 of our existing locations. The majority of these closings will involve the relocation of 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 2019 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.

## 2018 COMPARED TO 2017

### 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 2018 compared to 2017 were as follows:

| <i>(In thousands)</i>            | 2018         |        | 2017         |        | Change      |        | Comps |
|----------------------------------|--------------|--------|--------------|--------|-------------|--------|-------|
| Furniture                        | \$ 1,289,133 | 24.6%  | \$ 1,236,737 | 23.5%  | \$ 52,396   | 4.2 %  | 5.4%  |
| Soft Home                        | 826,313      | 15.8   | 789,596      | 15.0   | 36,717      | 4.7    | 6.6   |
| Consumables                      | 799,038      | 15.3   | 822,533      | 15.6   | (23,495)    | (2.9)  | (0.4) |
| Food                             | 782,988      | 14.9   | 818,387      | 15.5   | (35,399)    | (4.3)  | (2.0) |
| Seasonal                         | 765,619      | 14.6   | 765,674      | 14.5   | (55)        | —      | 1.1   |
| Hard Home                        | 407,596      | 7.8    | 428,788      | 8.2    | (21,192)    | (4.9)  | (3.0) |
| Electronics, Toys, & Accessories | 367,418      | 7.0    | 402,647      | 7.7    | (35,229)    | (8.7)  | (7.4) |
| Net sales                        | \$ 5,238,105 | 100.0% | \$ 5,264,362 | 100.0% | \$ (26,257) | (0.5)% | 1.2%  |

We periodically assess and make minor adjustments to our product hierarchy, which can impact the roll-up to 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 decreased \$26.3 million, or 0.5%, to \$5,238.1 million in 2018, compared to \$5,264.4 million in 2017. The decrease in net sales was principally due to fiscal 2017 consisting of 53 weeks and fiscal 2018 consisting of 52 weeks, which decreased net sales by \$69.1 million. The fiscal week difference was partially offset by a 1.2% increase in comps, which increased net sales by \$62.3 million. The decrease in net sales was also affected by the net decrease of 15 stores since the end of 2017, which decreased net sales by approximately \$19.5 million.

Our “ownable” Furniture and Seasonal merchandise categories and our “winnable” Soft Home merchandise category 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 flooring, home decor, and bath departments, as well as increased selling space.
- The **Furniture** category experienced increased net sales and comps during 2018, primarily driven by improved trends from newness in styles and color options throughout the sequential quarters in all departments, which was aided by the continued 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** category were primarily the result of positive results in fall fashion assortments as well as late season promotional strength in our lawn & garden department.

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

- **Consumables** experienced a slight decline in comps as close-out availability constrained net sales, partially offset by our efforts to expand our “never-out” brand-name offerings, particularly in our housekeeping department.
- The **Food** category continued to experience decreased net sales and comps as price competition from the largest grocery store chains continues to weigh negatively on this category. This price competition has muted our ability to communicate and demonstrate our value proposition in this category as well as we have been able to do in the past.
- The negative comps and decreased net sales in **Hard Home** and **Electronics, Toys, & Accessories** resulted from an intentionally narrowed merchandise assortment to support growth of “ownable” categories.

For 2019, we expect net sales to increase in the low single digits compared to 2018, which is based on an anticipated increase in comps in the low single digits. 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 Consumables should see net sales trend improvement during the year due to higher focus and presentation in our stores. We are planning comps below the company average in our Hard Home and Electronics, Toys, & Accessories categories, due to the convenience nature and narrowed product assortments, and our Food category as we further refine our product offering and space allocation.

## **Gross Margin**

Gross margin dollars decreased \$20.5 million, or 1.0%, to \$2,121.9 million in 2018, compared to \$2,142.4 million in 2017. The decrease in gross margin dollars was primarily due to the decrease in net sales, which decreased gross margin dollars by approximately \$10.7 million, along with a lower gross margin rate, which decreased gross margin dollars by approximately \$9.8 million. Gross margin as a percentage of net sales, or gross margin rate, decreased 20 basis points to 40.5% in 2018 compared to 40.7% in 2017. The gross margin rate decrease was the result of a higher overall markdown rate, partially offset by a higher initial mark-up, driven by favorable product costs and a lower shrink rate. Our higher markdown rate was driven by slower early season selling of our summer, lawn & garden, and Christmas trim departments that required increased end of season promotions.

For 2019, we expect our gross margin rate to be up slightly compared to 2018, which is driven by continued sales growth in our higher margin “ownable” and “winnable” categories, an improved initial mark-up, and a lower shrink rate.

## **Selling and Administrative Expenses**

Selling and administrative expenses were \$1,778.4 million in 2018, compared to \$1,724.0 million in 2017. The increase of \$54.4 million, or 3.2%, was primarily due to \$7.0 million in costs associated with the retirement of our former chief executive officer, \$3.5 million in charges associated with the settlement of our shareholder and derivative litigation matters that were initially filed in 2012, and increases in distribution and outbound transportation costs of \$19.0 million, store-related occupancy costs of \$11.7 million, store-related payroll of \$9.8 million, \$4.6 million in non-payroll costs associated with our Store of the Future project, and corporate headquarters occupancy expense of \$4.6 million, partially offset by decreases in accrued bonus of \$10.9 million. Our former chief executive officer separated from service and retired during the first quarter of 2018, entitling him to certain separation benefits. The rise in distribution and outbound transportation costs was a result of higher carrier rates, an increase in fuel prices, and investment in our distribution center associate wage rates in 2018 compared to 2017. The increase in store occupancy costs was due to normal renewals of our leased properties, growth in the average store size for our new stores, and pre-opening rents associated with leases we purchased from a bankrupt retailer. Store-related payroll increased mainly due to our investment in the average wage rate, along with additional payroll costs associated with our Store of the Future remodel activity in certain markets, partially offset by a net decrease of 15 stores since the end of 2017. The non-payroll Store of the Future project costs include incurred costs related to supplies, in-store displays, and travel to support the completion of each location, which are not included in the capitalized construction costs. Our corporate headquarters occupancy expense increase was driven principally by the commencement of the lease for our new headquarters, compared to 2017 when we operated in an owned facility. Accrued bonus expense decreased due to lower performance in 2018 relative to our annual operating plan as compared to 2017 performance related to our annual operating plan.

As a percentage of net sales, selling and administrative expenses increased by 130 basis points to 34.0% in 2018 compared to 32.7% in 2017. 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 2019, selling and administrative expenses as a percentage of net sales are expected to increase from 2018. Specifically, we anticipate selling and administrative expenses as a percentage of net sales will increase due to further investment in our store associate-related costs, including wages, an increase in costs to support our increased investments in our Store of the Future initiative, transition costs associated with moving our California distribution center, an increase in incentive compensation costs due to the absence of corporate bonuses in 2018, and, lastly, increased occupancy costs, including the impacts of the new lease accounting standard. We expect to implement certain cost reduction initiatives in 2019, and beyond, to partially offset the previously noted expense drivers.

## **Depreciation Expense**

Depreciation expense increased \$7.9 million to \$125.0 million in 2018 compared to \$117.1 million in 2017. The increase was primarily driven by our investment in our Store of the Future remodels. Depreciation expense as a percentage of net sales increased by 20 basis points compared to 2017.

For 2019, we expect capital expenditures to be approximately \$260 million to \$270 million, which is an increase compared to 2018 when capital expenditures were approximately \$232 million. The expected increase in capital expenditures is driven by our continued investments in strategic initiatives to support future growth including a larger investment in the Store of the Future project as more stores will be remodeled in 2019 than in 2018, and our final significant investment in equipment for our new distribution center in California. Our 2019 expectations also include maintenance capital for our stores, distribution centers, and corporate offices, and investments in the construction costs associated with opening 50 new stores. Based on our level of investment in 2018 and our anticipated level of capital expenditures in 2019, we expect 2019 depreciation expense to be approximately \$155 million, compared to \$125 million in 2018.

### **Operating Profit**

Operating profit was \$218.5 million in 2018 compared to \$301.4 million in 2017. The decrease 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 decreases in sales and gross margin rate, coupled with increases in selling and administrative expenses and depreciation expense. Additionally, operating profit was negatively impacted by the absence of the 53rd week in 2018.

### **Interest Expense**

Interest expense increased \$3.6 million, to \$10.3 million in 2018 compared to \$6.7 million in 2017. The increase was primarily driven by an increase in our average interest rate on our revolving debt and total average borrowings. The average interest rate on our revolving debt was impacted by increases in the LIBOR rate, as our 2011 Credit Agreement and 2018 Credit Agreement are both variable based on LIBOR. We had total average borrowings (including capital leases) of \$320.1 million in 2018 compared to total average borrowings of \$241.5 million in 2017. The increase in our average borrowings (including capital leases) was driven by an increase of \$83.4 million to our average revolving debt balance in 2018 as compared to 2017. The increase in our average revolving debt balance was driven by lower than expected cash flows from operating activities, principally resulting from lower than anticipated net sales in 2018 and an increase in purchases of inventory in late 2018 in order to mitigate potential tariff cost impacts, and increased investments in capital expenditures.

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

Other income (expense) was \$(0.6) million in 2018, compared to \$0.7 million in 2017. The change from 2017 to 2018 was related to our diesel fuel hedging contracts, driven by a change in pricing trends for diesel fuel formed contracts.

### **Income Taxes**

Our effective income tax rate in 2018 and 2017 was 24.4% and 35.7%, respectively. The net decrease in our effective rate was principally driven by the following:

- The lower rate on 2018 taxable income due to the enactment of federal legislation on December 22, 2017 commonly referred to as the Tax Cut and Jobs Act (“TCJA”) that resulted in a lower 2018 U.S. federal rate compared to the blended 2017 U.S. federal rate;
- The absence of the impact of the net deferred tax expense related to the TCJA corporate income tax rate reduction on our net deferred tax assets during 2017; and
- An increase in favorable state income tax settlements.

Lastly, the effective income tax rate decrease was partially offset by a shift from generating net excess tax benefits associated with the settlement of share-based payment awards in 2017 to experiencing net tax deficiencies associated with share-based payment awards in 2018 and an increase in nondeductible expenses primarily associated with enacted law changes in the TCJA.

## 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 from 2017 compared to 2016 were as follows:

| <i>(In thousands)</i>            | 2017         |        | 2016         |        | Change    |       | Comps |
|----------------------------------|--------------|--------|--------------|--------|-----------|-------|-------|
| Furniture                        | \$ 1,236,737 | 23.5%  | \$ 1,195,365 | 23.0%  | \$ 41,372 | 3.5%  | 1.8%  |
| Consumables                      | 822,533      | 15.6   | 817,747      | 15.7   | 4,786     | 0.6   | (0.2) |
| Food                             | 818,387      | 15.5   | 824,414      | 15.9   | (6,027)   | (0.7) | (1.8) |
| Soft Home                        | 789,596      | 15.0   | 750,814      | 14.5   | 38,782    | 5.2   | 4.2   |
| Seasonal                         | 765,674      | 14.5   | 738,756      | 14.2   | 26,918    | 3.6   | 3.6   |
| Hard Home                        | 428,788      | 8.2    | 437,575      | 8.4    | (8,787)   | (2.0) | (2.5) |
| Electronics, Toys, & Accessories | 402,647      | 7.7    | 429,324      | 8.3    | (26,677)  | (6.2) | (7.8) |
| Net sales                        | \$ 5,264,362 | 100.0% | \$ 5,193,995 | 100.0% | \$ 70,367 | 1.4%  | 0.4%  |

Net sales increased \$70.4 million, or 1.4%, to \$5,264.4 million in 2017, compared to \$5,194.0 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 \$17.4 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.

### 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 30 basis points to 40.7% 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.

### **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.

### **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.

### **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.

## Capital Resources and Liquidity

On August 31, 2018, we entered into the 2018 Credit Agreement which provides for a \$700 million five-year unsecured credit facility and replaces our prior credit facility entered into in July 2011 and most recently amended in May 2015 (“2011 Credit Agreement”). The 2018 Credit Agreement expires on August 31, 2023. Borrowings under the 2018 Credit Agreement are available for general corporate purposes and working capital. The 2018 Credit Agreement includes a \$30 million swing loan sublimit, a \$75 million letter of credit sublimit, a \$75 million sublimit for loans to foreign borrowers, and a \$200 million optional currency sublimit. The interest rates, pricing and fees under the 2018 Credit Agreement fluctuate based on our debt rating. The 2018 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 2018 Credit Agreement. The 2018 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 2018 Credit Agreement that would permit the lenders to restrict our ability to further access the 2018 Credit Agreement for loans and letters of credit and require the immediate repayment of any outstanding loans under the 2018 Credit Agreement. At February 2, 2019, we were in compliance with the covenants of the 2018 Credit Agreement.

We use the 2018 Credit Agreement, as necessary, to provide funds for ongoing and seasonal working capital, capital expenditures, dividends, share repurchase programs, and other expenditures. In addition, we use the 2018 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 2018 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 2018, our total indebtedness (outstanding borrowings and letters of credit) under the 2018 Credit Agreement peaked at approximately \$536 million in November. At February 2, 2019, we had \$374.1 million in outstanding borrowings under the 2018 Credit Agreement and \$320.9 million in borrowings available under the 2018 Credit Agreement, after taking into account the reduction in availability resulting from outstanding letters of credit totaling \$5.0 million. The increase in our outstanding borrowings was driven by lower than expected cash flows from operating activities, principally resulting from lower than anticipated net sales in 2018 and an increase in purchases of inventory in late 2018 in order to mitigate potential tariff cost impacts. Working capital was \$489.4 million at February 2, 2019.

The primary source of our liquidity is cash flows from operations and, as necessary, borrowings under the 2018 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 2018 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, payment of capital expenditures, and payment of payroll and other operating expenses, income and other taxes, employee benefits, and other miscellaneous disbursements.

On March 7, 2018, our Board of Directors authorized a share repurchase program providing for the repurchase of \$100 million of our common shares (“2018 Repurchase Program”). During 2018, we exhausted this program by purchasing approximately 2.4 million of our outstanding common shares at an average price of \$42.11.

On March 6, 2019, our Board of Directors authorized a share repurchase program providing for the repurchase of \$50 million of our common shares (the “2019 Repurchase Program”). Pursuant to the 2019 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 2019 Repurchase Program will be available to meet obligations under our equity compensation plans and for general corporate purposes. The 2019 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 2018 Credit Agreement.

In 2018, we declared and paid four quarterly cash dividends of \$0.30 per common share for a total paid amount of approximately \$50.6 million.

In March 2019, our Board declared a quarterly cash dividend of \$0.30 per common share payable on April 5, 2019 to shareholders of record as of the close of business on March 22, 2019.

The following table compares the primary components of our cash flows from 2018 to 2017:

| <i>(In thousands)</i>                               | <b>2018</b> | <b>2017</b> | <b>Change</b> |
|---|-------------|-------------|---------------|
| Net cash provided by operating activities           | \$ 234,060  | \$ 250,368  | \$ (16,308)   |
| Net cash used in investing activities               | (376,473)   | (156,508)   | (219,965)     |
| Net cash provided by (used in) financing activities | \$ 137,271  | \$ (93,848) | \$ 231,119    |

Cash provided by operating activities decreased by \$16.3 million to \$234.1 million in 2018 compared to \$250.4 million in 2017. The decrease was primarily driven by our decision to accelerate our inventory purchases to mitigate tariff cost exposure which resulted in an increase in cash outflow associated with inventories of \$82.7 million, as well as a decrease in net income of \$32.9 million and a decrease in deferred income taxes of \$27.2 million. The decrease in conversion of our deferred tax asset to offset cash tax payments was a byproduct of our effort in 2017 to utilize as much of our deferred tax assets as possible prior to the federal income tax rate change associated with the TCJA, and the absence of the write-off of deferred tax assets associated with the change in federal tax rate. Partially offsetting this decrease was a change in our accounts payable, which increased our cash provided by operating activities by \$95.0 million.

Cash used in investing activities increased by \$220.0 million to \$376.5 million in 2018 compared to \$156.5 million in 2017. The increase was driven by a \$113.3 million increase in assets acquired under synthetic lease to \$128.9 million in 2018 compared to \$15.6 million in 2017, as well as an increase of \$89.7 million in capital expenditures to \$232.4 million in 2018 from \$142.7 million in 2017. The increase in assets acquired under synthetic lease was driven by a full year of construction on our new distribution center in Apple Valley, California in 2018 compared to two months of construction in 2017. The increase in capital expenditures was driven by our increased investment in our Store of the Future remodels and new store openings, and fixtures and equipment for our new California distribution center and new corporate office. Additionally, we acquired intangible assets associated with the Broyhill trademark during 2018 for \$15.8 million.

Cash provided by financing activities increased by \$231.1 million to \$137.3 million in 2018 compared to \$93.8 million in cash used in financing activities in 2017. The increase was primarily driven by a \$113.3 million increase in the proceeds from synthetic lease to \$128.9 million in 2018 from \$15.6 million in 2017, an increase in net borrowings under our bank credit facility of \$80.9 million to \$174.3 million in 2018 compared to \$93.4 million in 2017, and a \$54.0 million decrease in payments for treasury shares acquired to \$111.8 million in 2018 from \$165.8 million in 2017. In addition, we received \$9.9 million less in proceeds from the exercise of stock options in 2018 compared to 2017.

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 \$95 to \$105 million in 2019; and we intend to distribute approximately \$100 million to shareholders through the 2019 Repurchase Program and quarterly dividend payments.



## Contractual Obligations

The following table summarizes payments due under our contractual obligations at February 2, 2019:

| <i>(In thousands)</i>                                 | Payments Due by Period <sup>(1)</sup> |                     |              |              |                      |
|---|---------------------------------------|---------------------|--------------|--------------|----------------------|
|   | Total                                 | Less than<br>1 year | 1 to 3 years | 3 to 5 years | More than<br>5 years |
| Obligations under bank credit facility <sup>(2)</sup> | \$ 374,884                            | \$ 784              | \$ —         | \$ 374,100   | \$ —                 |
| Operating lease obligations <sup>(3)(4)</sup>         | 1,679,983                             | 369,008             | 588,935      | 347,325      | 374,715              |
| Capital lease obligations <sup>(4)</sup>              | 170,958                               | 9,050               | 20,540       | 13,504       | 127,864              |
| Purchase obligations <sup>(4)(5)</sup>                | 741,502                               | 622,037             | 95,563       | 23,381       | 521                  |
| Other long-term liabilities <sup>(6)</sup>            | 62,299                                | 9,329               | 10,325       | 9,544        | 33,101               |
| Total contractual obligations                         | \$ 3,029,626                          | \$ 1,010,208        | \$ 715,363   | \$ 767,854   | \$ 536,201           |

- (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 2018 Credit Agreement, and the associated accrued interest of \$0.8 million. In addition, we had outstanding letters of credit totaling \$55.9 million at February 2, 2019. Approximately \$53.8 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 \$2.1 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 \$1,319.2 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 \$360.8 million at February 2, 2019. 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 \$401.4 million, the entirety of which represents obligations due within one year of February 2, 2019. In addition, we have purchase commitments for future inventory purchases totaling \$1.3 million at February 2, 2019. 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 \$338.9 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 \$31.8 million for obligations related to our nonqualified deferred compensation plan, \$25.1 million for a charitable commitment, and \$3.4 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 \$25.1 million over the next eight years. We have included unrecognized tax benefits of \$2.6 million for payments expected in 2019 and \$0.8 million of timing-related income tax uncertainties anticipated to reverse in 2019. Unrecognized tax benefits in the amount of \$13.4 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 current 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 2019, 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 2, 2019, a 10% difference in our shrink reserve would have affected gross margin, operating profit and income before income taxes by approximately \$3.0 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.

In 2018 or 2017, we did not identify any stores with impairment risk indicators as a result of our annual store impairment tests. As such, we did not recognize any store impairment charges in 2018 or 2017. In 2016, we identified one store with impairment indicators and recognized an impairment charge of \$0.1 million.

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 performance share units ("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 \$26.3 million, \$27.8 million, and \$33.0 million in 2018, 2017, and 2016, respectively. Future share-based compensation expense for non-vested restricted stock units depends on the future number of awards granted, 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 issued, 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 2016, 2017, and 2018. The PSUs issued in 2016, 2017, and 2018 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 2018 for the PSUs issued in 2016, and is estimated to occur in March 2019 and March 2020 for the PSUs issued in 2017 and 2018, 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 end of the performance period. Accordingly, based on this accounting treatment, there was no expense recognized in fiscal 2016 or fiscal 2017 related to the PSUs issued in 2016. On March 6, 2018, the Compensation Committee established the 2018 performance targets, which established the grant date, and, therefore, the fair value of the PSUs issued in 2016. 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 2018, we recognized \$14.9 million in share-based compensation expense related to the PSUs issued in 2016. 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 2, 2019, PSUs issued and outstanding were as follows:

| <b>Issue Year</b> | <b>Outstanding PSUs at February 2, 2019</b> | <b>Actual Grant Date</b> | <b>Expected Valuation (Grant) Date</b> |
|-------------------|---|--------------------------|--|
| 2016              | 282,083                                     | March 2018               |  |
| 2017              | 222,323                                     |                          | March 2019                             |
| 2018              | 239,925                                     |                          | March 2020                             |
| <b>Total</b>      | <b>744,331</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 TCJA. 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 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 2, 2019 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 \$2.1 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

### Interest Rate Risk

We are subject to market risk from exposure to changes in interest rates on investments and on borrowings under the 2018 Credit Agreement that we make from time to time. We had borrowings of \$374.1 million under the 2018 Credit Agreement at February 2, 2019. An increase of 1% in our variable interest rate on our investments and estimated future borrowings could affect our financial condition, results of operations, or liquidity through higher interest expense by approximately \$3.2 million.

### Risks Associated with Derivative Instruments

We are subject to market risk from exposure to changes in our derivative instruments, associated with diesel fuel. At February 2, 2019, we had outstanding derivative instruments, in the form of collars, covering 7.2 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> |
| 2019                      | 3,600                          | 3,600        | \$ (31)               |
| 2020                      | 2,400                          | 2,400        | (444)                 |
| 2021                      | 1,200                          | 1,200        | (210)                 |
| <b>Total</b>              | <b>7,200</b>                   | <b>7,200</b> | <b>\$ (685)</b>       |

Additionally, at February 2, 2019, a 10% difference in the forward curve for diesel fuel prices could affect unrealized gains (losses) in other income (expense) by approximately \$2.0 million.

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

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

To the shareholders and the Board of Directors 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 2, 2019, 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 2, 2019, 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 2, 2019, of the Company and our report dated April 2, 2019 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 2, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors 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 2, 2019 and February 3, 2018, the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows, for each of the three years in the period ended February 2, 2019, 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 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the three years in the period ended February 2, 2019, 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 2, 2019, 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 2, 2019, 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 2, 2019

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)

|  | <b>2018</b>  | <b>2017</b>  | <b>2016</b>  |
|--|--------------|--------------|--------------|
| Net sales  | \$ 5,238,105 | \$ 5,264,362 | \$ 5,193,995 |
| Cost of sales (exclusive of depreciation expense shown separately below) | 3,116,210    | 3,121,920    | 3,094,576    |
| Gross margin   | 2,121,895    | 2,142,442    | 2,099,419    |
| Selling and administrative expenses                                      | 1,778,416    | 1,723,996    | 1,730,956    |
| Depreciation expense   | 124,970      | 117,093      | 120,460      |
| Operating profit   | 218,509      | 301,353      | 248,003      |
| Interest expense   | (10,338)     | (6,711)      | (5,091)      |
| Other income (expense)   | (558)        | 712          | 1,387        |
| Income before income taxes   | 207,613      | 295,354      | 244,299      |
| Income tax expense   | 50,719       | 105,522      | 91,471       |
| Net income   | \$ 156,894   | \$ 189,832   | \$ 152,828   |
| Earnings per common share:   |              |              |              |
| Basic  | \$ 3.84      | \$ 4.43      | \$ 3.37      |
| Diluted  | \$ 3.83      | \$ 4.38      | \$ 3.32      |

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



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

|  | 2018       | 2017       | 2016       |
|--|------------|------------|------------|
| Net income   | \$ 156,894 | \$ 189,832 | \$ 152,828 |
| Other comprehensive income:  |            |            |            |
| Amortization of pension, net of tax benefit of \$0, \$0, and \$(886), respectively           | —          | —          | 1,355      |
| Valuation adjustment of pension, net of tax benefit of \$0, \$0, and \$(9,556), respectively | —          | —          | 14,622     |
| Total other comprehensive income   | —          | —          | 15,977     |
| Comprehensive income   | \$ 156,894 | \$ 189,832 | \$ 168,805 |

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 2, 2019    | February 3, 2018    |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| Current assets:   |                     |                     |
| Cash and cash equivalents   | \$ 46,034           | \$ 51,176           |
| Inventories   | 969,561             | 872,790             |
| Other current assets  | 112,408             | 98,007              |
| <b>Total current assets</b>   | <b>1,128,003</b>    | <b>1,021,973</b>    |
| Property and equipment - net  | 822,338             | 565,977             |
| Deferred income taxes   | 8,633               | 13,986              |
| Other assets  | 64,373              | 49,790              |
| <b>Total assets</b>   | <b>\$ 2,023,347</b> | <b>\$ 1,651,726</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                     |                     |
| Current liabilities:  |                     |                     |
| Accounts payable  | \$ 396,903          | \$ 351,226          |
| Property, payroll, and other taxes  | 75,317              | 80,863              |
| Accrued operating expenses  | 99,422              | 72,013              |
| Insurance reserves  | 38,883              | 38,517              |
| Accrued salaries and wages  | 26,798              | 39,321              |
| Income taxes payable  | 1,237               | 7,668               |
| <b>Total current liabilities</b>  | <b>638,560</b>      | <b>589,608</b>      |
| Long-term obligations   | 374,100             | 199,800             |
| Deferred rent   | 60,700              | 58,246              |
| Insurance reserves  | 54,507              | 55,015              |
| Unrecognized tax benefits   | 14,189              | 14,929              |
| Synthetic lease obligation  | 144,477             | 15,606              |
| Other liabilities   | 43,773              | 48,935              |
| 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 40,042 shares and 41,925 shares, respectively | 1,175               | 1,175               |
| Treasury shares - 77,453 shares and 75,570 shares, respectively, at cost  | (2,506,086)         | (2,422,396)         |
| Additional paid-in capital  | 622,685             | 622,550             |
| Retained earnings   | 2,575,267           | 2,468,258           |
| Accumulated other comprehensive loss  | —                   | —                   |
| <b>Total shareholders' equity</b>   | <b>693,041</b>      | <b>669,587</b>      |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 2,023,347</b> | <b>\$ 1,651,726</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<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total      |
|--|---------|----------|----------|---------------|----------------------------------|----------------------|---|------------|
|  | Shares  | Amount   | Shares   | Amount        |                                  |                      |   |            |
| 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    |
| Comprehensive income                                 | —       | —        | —        | —             | —                                | 156,894              | —   | 156,894    |
| Dividends declared (\$1.20 per share)                | —       | —        | —        | —             | —                                | (49,885)             | —   | (49,885)   |
| Purchases of common shares                           | (2,635) | —        | 2,635    | (107,830)     | (3,920)                          | —                    | —   | (111,750)  |
| Exercise of stock options                            | 43      | —        | (43)     | 1,395         | 464                              | —                    | —   | 1,859      |
| Restricted shares vested                             | 413     | —        | (413)    | 13,271        | (13,271)                         | —                    | —   | —          |
| Performance shares vested                            | 296     | —        | (296)    | 9,475         | (9,475)                          | —                    | —   | —          |
| Share activity related to deferred compensation plan | —       | —        | —        | (1)           | 2                                | —                    | —   | 1          |
| Other  | —       | —        | —        | —             | —                                | —                    | —   | —          |
| Share-based employee compensation expense            | —       | —        | —        | —             | 26,335                           | —                    | —   | 26,335     |
| Balance - February 2, 2019                           | 40,042  | \$ 1,175 | 77,453   | \$(2,506,086) | \$ 622,685                       | \$ 2,575,267         | \$ —  | \$ 693,041 |

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

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

|   | 2018       | 2017       | 2016       |
|---|------------|------------|------------|
| Operating activities:   |            |            |            |
| Net income  | \$ 156,894 | \$ 189,832 | \$ 152,828 |
| Adjustments to reconcile net income to net cash provided by operating activities: |            |            |            |
| Depreciation and amortization expense   | 114,025    | 106,004    | 108,315    |
| Deferred income taxes   | 5,353      | 32,578     | (9,171)    |
| Non-cash share-based compensation expense   | 26,335     | 27,825     | 33,029     |
| Excess tax benefit from share-based awards  | —          | —          | (1,111)    |
| Non-cash impairment charge  | 141        | —          | 100        |
| Loss (gain) on disposition of property and equipment                              | 732        | 483        | (2,899)    |
| Unrealized loss (gain) on fuel derivatives  | 1,075      | (1,398)    | (3,657)    |
| Pension expense, net of contributions   | —          | —          | 6,644      |
| Change in assets and liabilities:   |            |            |            |
| Inventories   | (96,772)   | (14,100)   | (8,707)    |
| Accounts payable  | 45,677     | (49,269)   | 18,217     |
| Current income taxes  | (14,108)   | (26,368)   | 12,391     |
| Other current assets  | (7,055)    | (12,144)   | 34         |
| Other current liabilities   | (11,637)   | (15,342)   | (4,789)    |
| Other assets  | 1,985      | (9,335)    | (3,976)    |
| Other liabilities   | 11,415     | 21,602     | 14,677     |
| Net cash provided by operating activities   | 234,060    | 250,368    | 311,925    |
| Investing activities:   |            |            |            |
| Capital expenditures  | (232,402)  | (142,745)  | (89,782)   |
| Cash proceeds from sale of property and equipment                                 | 519        | 1,854      | 5,061      |
| Assets acquired under synthetic lease   | (128,872)  | (15,606)   | —          |
| Payments for purchase of intangible assets  | (15,750)   | —          | —          |
| Other   | 32         | (11)       | 20         |
| Net cash used in investing activities   | (376,473)  | (156,508)  | (84,701)   |
| Financing activities:   |            |            |            |
| Net proceeds from borrowings under bank credit facility                           | 174,300    | 93,400     | 44,100     |
| Payment of capital lease obligations  | (3,908)    | (4,134)    | (4,514)    |
| Dividends paid  | (50,608)   | (44,671)   | (38,466)   |
| Proceeds from the exercise of stock options                                       | 1,859      | 11,712     | 21,656     |
| Excess tax benefit from share-based awards  | —          | —          | 1,111      |
| Payment for treasury shares acquired  | (111,750)  | (165,757)  | (254,304)  |
| Proceeds from synthetic lease   | 128,872    | 15,606     | —          |
| Deferred bank credit facility fees paid   | (1,495)    | —          | —          |
| Other   | 1          | (4)        | 213        |
| Net cash provided by (used in) financing activities                               | 137,271    | (93,848)   | (230,204)  |
| (Decrease) increase in cash and cash equivalents                                  | (5,142)    | 12         | (2,980)    |
| Cash and cash equivalents:  |            |            |            |
| Beginning of year   | 51,176     | 51,164     | 54,144     |
| End of year   | \$ 46,034  | \$ 51,176  | \$ 51,164  |

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 discount retailer in the United States (“U.S.”). At February 2, 2019, we operated 1,401 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 provide 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.

### **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 2018 (“2018”) was comprised of the 52 weeks that began on February 4, 2018 and ended on February 2, 2019. 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.

### **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 2, 2019 and February 3, 2018, totaled \$23.6 million and \$27.0 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 2, 2019 and February 3, 2018.

## **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                           | 3 - 7 years  |
| Distribution and transportation fixtures and equipment | 5 - 15 years |
| Office and computer equipment                          | 3 - 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 reasonably 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.

### **Intangible Assets**

During the fourth quarter of 2018, we acquired the Broyhill trademark and trade name for \$15.8 million. This trademark and trade name have indefinite lives, which will be tested for impairment annually or whenever circumstances indicate that a decline in value may have occurred. We will estimate the fair value of these intangible assets based on an income approach. We would recognize an impairment charge if the estimated fair value of the intangible asset becomes less than the carrying value.

### **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.

### **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 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 revenue at the time the customer takes possession of the merchandise (i.e., the point at which we transfer the goods). Sales are recorded net of discounts (i.e., the amount of consideration we expect to receive for the goods) 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 (1) when the gift card or merchandise credit is redeemed in a sales transaction by the customer or (2) as 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. 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, distribution and outbound 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, distribution and outbound 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 \$180.5 million, \$161.5 million, and \$151.9 million for 2018, 2017, and 2016, 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 \$93.6 million, \$92.0 million, and \$92.3 million for 2018, 2017, and 2016, 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.

### ***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 end of the performance period.

### **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 2018, 2017, and 2016:

| <i>(In thousands)</i>   | <b>2018</b>  | <b>2017</b>  | <b>2016</b>  |
|---|--------------|--------------|--------------|
| <b>Supplemental disclosure of cash flow information:</b>      |              |              |              |
| Cash paid for interest, including capital leases              | \$ 10,292    | \$ 5,991     | \$ 4,486     |
| Cash paid for income taxes, excluding impact of refunds       | \$ 59,691    | \$ 99,693    | \$ 103,323   |
| Gross proceeds from borrowings under the bank credit facility | \$ 1,861,900 | \$ 1,656,100 | \$ 1,673,700 |
| Gross repayments of borrowings under the bank credit facility | \$ 1,687,600 | \$ 1,562,700 | \$ 1,629,600 |
| Non-cash activity:  |              |              |              |
| Assets acquired under capital leases                          | \$ 902       | \$ 238       | \$ 286       |
| Accrued property and equipment                                | \$ 32,264    | \$ 11,236    | \$ 9,295     |

## Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. The ASU allows for the modified retrospective method of adoption. The FASB issued ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements*, which allows entities to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in the consolidated financial statements. ASU 2018-11 will allow entities to continue to apply the legacy guidance in Topic 840, *Leases*, including its disclosure requirements, in the comparative periods presented in the year the new leases standard is adopted. Entities that elect this option to adopt the new leases standard would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. We did not early adopt this standard, but rather we will adopt this standard on February 3, 2019, which is in the first quarter of 2019. We have elected to use the modified retrospective method as of the effective date of the standard as allowed by ASU 2018-11. We will elect the transition package of three practical expedients permitted within the standard, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification, and initial direct costs. We will not elect the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of right-of-use assets. Further, we will elect a short-term lease exception policy, permitting us to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets. Adoption of the standard is expected to result in the recognition of right-of-use assets and lease liabilities for operating leases of approximately \$1.1 billion. We are finalizing the impact of the standard to our accounting policies, processes, disclosures, and internal control over financial reporting and have implemented a new lease administration and accounting system. We are evaluating the disclosure requirements and are incorporating the collection of relevant data into our processes in preparation for disclosure in 2019. The Company does not expect the adoption of this guidance to have a material impact on its statements of operations, shareholders’ equity, or cash flows.

## Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update provided 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 expanded related disclosure requirements. During the first quarter of 2018, we adopted the new standard on the retrospective method. The adoption had no impact on the timing of the recognition of our revenue or costs. The adoption resulted in an immaterial adjustment to the amount of gross revenue and costs that we had previously reported, as certain of our vendor relationships had different principal versus agent treatment under the new standard. Additionally, we considered the disclosure requirements of the standard and determined that no additional disclosures were necessary.

## 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 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 2, 2019 | February 3, 2018 |
|--|------------------|------------------|
| Land and land improvements                     | \$ 61,200        | \$ 60,416        |
| Buildings and leasehold improvements           | 1,078,142        | 881,077          |
| Fixtures and equipment                         | 784,170          | 772,711          |
| Computer software costs                        | 179,071          | 172,539          |
| Construction-in-progress                       | 78,580           | 35,084           |
| Property and equipment - cost                  | 2,181,163        | 1,921,827        |
| Less accumulated depreciation and amortization | 1,358,825        | 1,355,850        |
| Property and equipment - net                   | \$ 822,338       | \$ 565,977       |

Property and equipment - cost includes \$29.5 million and \$28.6 million at February 2, 2019 and February 3, 2018, respectively, to recognize assets from capital leases. Accumulated depreciation and amortization includes \$17.9 million and \$13.2 million at February 2, 2019 and February 3, 2018, respectively, related to capital leases. Additionally, we had \$144.5 million and \$15.6 million in assets from a synthetic lease for our distribution center in Apple Valley, California at February 2, 2019 and February 3, 2018, respectively.

During 2018, 2017, and 2016, respectively, we invested \$232.4 million, \$142.7 million, and \$89.8 million of cash in capital expenditures and we recorded \$125.0 million, \$117.1 million, and \$120.5 million of depreciation expense.

We incurred \$0.1 million, \$0.0 million, and \$0.1 million in asset impairment charges in 2018, 2017, and 2016, respectively. During 2018, we wrote down the value of an asset held for sale. In 2018 and 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.

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 August 31, 2018, we entered into a \$700 million five-year unsecured credit facility ("2018 Credit Agreement") that replaces our prior credit facility entered into in July 2011 and most recently amended in May 2015 ("2011 Credit Agreement") and, among other things, amends certain of the representations and covenants applicable to the facility. The 2018 Credit Agreement expires on August 31, 2023. In connection with our entry into the 2018 Credit Agreement, we paid bank fees and other expenses in the aggregate amount of \$1.5 million, which are being amortized over the term of the agreement.

Borrowings under the 2018 Credit Agreement are available for general corporate purposes, working capital, and to repay certain of our indebtedness. The 2018 Credit Agreement includes a \$30 million swing loan sublimit, a \$75 million letter of credit sublimit, a \$75 million sublimit for loans to foreign borrowers, and a \$200 million optional currency sublimit. The interest rates, pricing and fees under the 2018 Credit Agreement fluctuate based on our debt rating. The 2018 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 2018 Credit Agreement. The 2018 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 2018 Credit Agreement that would permit the lenders to restrict our ability to further access the 2018 Credit Agreement for loans and letters of credit and require the immediate repayment of any outstanding loans under the 2018 Credit Agreement. At February 2, 2019, we had \$374.1 million of borrowings outstanding under the 2018 Credit Agreement and \$5.0 million was committed to outstanding letters of credit, leaving \$320.9 million available under the 2018 Credit Agreement.

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

In connection with our nonqualified deferred compensation plan, we had mutual fund investments of \$31.6 million and \$33.0 million at February 2, 2019 and February 3, 2018, 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 1,348 of our retail stores, our new corporate office, our new California distribution center, and certain transportation, information technology and other office equipment. After entering into a lease in 2016 for our new corporate office, we moved into the new office during the second quarter 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 construction began in December 2017. We expect the lease term to commence and to begin operations in 2019 for the new distribution center in California. 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> | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|-----------------------|-------------|-------------|-------------|
| Minimum rents         | \$ 346,067  | \$ 330,229  | \$ 321,248  |
| Contingent rents      | 168         | 469         | 607         |
| Total rent expense    | \$ 346,235  | \$ 330,698  | \$ 321,855  |

Future minimum rental commitments for leases, excluding closed store leases, real estate taxes, CAM, and property insurance, at February 2, 2019, were as follows:

| <b>Fiscal Year</b> | <i>(In thousands)</i> |
|--------------------|-----------------------|
| 2019               | \$ 279,844            |
| 2020               | 244,978               |
| 2021               | 204,362               |
| 2022               | 159,479               |
| 2023               | 120,023               |
| Thereafter         | 310,474               |
| Total leases       | \$ 1,319,160          |

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. Additionally, we have recorded the obligation for our synthetic lease arrangement in California in the synthetic lease obligation caption on our consolidated balance sheet. Scheduled payments for all capital leases at February 2, 2019, were as follows:

| <b>Fiscal Year</b>                         | <i>(In thousands)</i> |
|--|-----------------------|
| 2019                                       | \$ 9,050              |
| 2020                                       | 10,815                |
| 2021                                       | 9,725                 |
| 2022                                       | 6,992                 |
| 2023                                       | 6,512                 |
| Thereafter                                 | 127,864               |
| Total lease payments                       | \$ 170,958            |
| Less amount to discount to present value   | (14,758)              |
| Capital lease obligation per balance sheet | \$ 156,200            |

## 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 2018, 2017, and 2016 were as follows:

| <i>(In millions)</i>  | 2018 | 2017 | 2016 |
|---|------|------|------|
| 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>                       | 2018   | 2017   | 2016   |
|---|--------|--------|--------|
| Weighted-average common shares outstanding: |        |        |        |
| Basic                                       | 40,809 | 42,818 | 45,316 |
| Dilutive effect of share-based awards       | 153    | 482    | 658    |
| Diluted                                     | 40,962 | 43,300 | 45,974 |

### Share Repurchase Programs

On March 7, 2018, our Board of Directors authorized a share repurchase program providing for the repurchase of up to \$100 million of our common shares (“2018 Repurchase Program”). The 2018 Repurchase Program was exhausted during the second quarter of 2018. On June 5, 2018, we utilized the entire authorization under our 2018 Repurchase Program to execute a \$100 million accelerated share repurchase transaction (“ASR Transaction”), which reduced our common shares outstanding by 2.4 million during the second quarter of 2018.

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:

|                | <b>Dividends<br/>Per Share</b> | <b>Amount<br/>Declared</b> | <b>Amount Paid</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>      |
| <b>2018:</b>   |                                | <i>(In thousands)</i>      | <i>(In thousands)</i> |
| First quarter  | \$ 0.30                        | \$ 12,744                  | \$ 14,386             |
| Second quarter | 0.30                           | 12,474                     | 12,141                |
| Third quarter  | 0.30                           | 12,321                     | 12,065                |
| Fourth quarter | 0.30                           | 12,346                     | 12,016                |
| <b>Total</b>   | <b>\$ 1.20</b>                 | <b>\$ 49,885</b>           | <b>\$ 50,608</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 \$26.3 million, \$27.8 million and \$33.0 million in 2018, 2017, and 2016, respectively.

### Non-vested Restricted Stock

The following table summarizes the non-vested restricted stock awards and restricted stock units activity for fiscal years 2016, 2017, and 2018:

|   | Number of Shares | Weighted Average Grant-Date Fair Value Per Share |
|---|------------------|--|
| 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   |
| Granted   | 354,457          | 45.38  |
| Vested  | (413,261)        | 42.60  |
| Forfeited   | (47,857)         | 44.49  |
| Outstanding non-vested restricted stock at February 2, 2019 | 483,182          | \$ 46.50   |

The non-vested restricted stock units granted in 2016, 2017 and 2018 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 vested in 2018.

### Performance Share Units

In 2013, in connection with our former CEO's appointment, he was awarded 37,800 PSUs, which vested based on the achievement of share price performance goals and had a weighted average grant-date fair value per share of \$34.68. 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 2016, 2017, and 2018, 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 2, 2019, 744,331 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<br>at<br>February 2, 2019 | Actual Grant Date | Expected Valuation<br>(Grant) Date | Actual or Expected<br>Expense Period |
|--------------|--|-------------------|------------------------------------|--------------------------------------|
| 2016         | 282,083                                    | March 2018        |                                    | Fiscal 2018                          |
| 2017         | 222,323                                    |                   | March 2019                         | Fiscal 2019                          |
| 2018         | 239,925                                    |                   | March 2020                         | Fiscal 2020                          |
| <b>Total</b> | <b>744,331</b>                             |                   |                                    |                                      |

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 the average targets and more shares were distributed than initially granted. The PSUs issued in 2016 performed below the average targets and fewer shares will be distributed than outstanding at February 2, 2019. At February 2, 2019, we estimate the attainment of an average performance that is less than the average targets established for the PSUs issued in 2017. In 2018, 2017, and 2016, we recognized \$14.9 million, \$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, 2017, and 2018:

|                                      | PSUs, excluding 2013<br>CEO PSUs |  |
|--------------------------------------|----------------------------------|--|
|                                      | Number of<br>Shares              | Weighted<br>Average<br>Grant-Date<br>Fair Value<br>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   |
| Granted                              | 337,421                          | 55.67  |
| Vested                               | (249,324)                        | 51.49  |
| Forfeited                            | (55,338)                         | 46.31  |
| Outstanding PSUs at February 2, 2019 | 282,083                          | \$ 55.67   |

#### Board of Directors' Awards

In 2016, we granted to each non-employee member of our Board of Directors a restricted stock award. In 2018 and 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 directors 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 of; (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 2, 2019:

| 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              | 160,001             | 1.1                                     | \$ 35.62                        | 160,001             | \$ 35.62                        |  |
| \$ 40.01        | \$ 50.00              | 77,500              | 0.1                                     | 43.85                           | 77,500              | 43.85                           |  |
|                 |                       | 237,501             | 0.8                                     | \$ 38.30                        | 237,501             | \$ 38.30                        |  |

A summary of the annual stock option activity for fiscal years 2016, 2017, and 2018 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 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                                  |   |                                   |
| Exercised                                      | (43,125)          | 43.11                                     |   |                                   |
| Forfeited                                      | —                 | —   |   |                                   |
| Outstanding stock options at February 2, 2019  | 237,501           | \$ 38.30                                  | 0.8   | \$ 5                              |
| Vested or expected to vest at February 2, 2019 | 237,501           | \$ 38.30                                  | 0.8   | \$ 5                              |
| Exercisable at February 2, 2019                | 237,501           | \$ 38.30                                  | 0.8   | \$ 5                              |

The stock options granted in prior years vested in equal amounts on the first four anniversaries of the grant date and have a contractual term of seven years.

During 2018, 2017, and 2016, the following activity occurred under our share-based compensation plans:

| (In thousands)                                   | 2018      | 2017      | 2016      |
|--|-----------|-----------|-----------|
| Total intrinsic value of stock options exercised | \$ 228    | \$ 4,423  | \$ 7,392  |
| Total fair value of restricted stock vested      | \$ 19,240 | \$ 19,015 | \$ 11,510 |
| Total fair value of performance shares vested    | \$ 12,792 | \$ 21,026 | \$ 621    |

The total unearned compensation cost related to all share-based awards outstanding, excluding PSUs issued in 2017 and 2018, at February 2, 2019 was approximately \$13.2 million. This compensation cost is expected to be recognized through October 2021 based on existing vesting terms with the weighted-average remaining expense recognition period being approximately 1.8 years from February 2, 2019.

## 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.

The components of net periodic pension expense were comprised of the following:

| <i>(In thousands)</i>                         | <b>2016</b> |
|---|-------------|
| Interest cost on projected benefit obligation | \$ 879      |
| Expected investment return on plan assets     | (1,536)     |
| Amortization of actuarial loss                | 2,241       |
| Settlement loss                               | 24,483      |
| Net periodic pension cost                     | \$ 26,067   |

The weighted-average assumptions used to determine net periodic pension expense were:

|                                   | <b>2016</b> |
|-----------------------------------|-------------|
| Discount rate                     | 1.2%        |
| Expected long-term rate of return | 2.8%        |

### 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 2018, 2017, and 2016, we expensed \$8.5 million, \$7.7 million, and \$6.6 million, respectively, related to our matching contributions. In connection with our nonqualified deferred compensation plan, we had liabilities of \$31.8 million and \$33.4 million at February 2, 2019 and February 3, 2018, 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, expanding the disallowance of deductions for executive compensation and accelerating tax depreciation for certain assets placed in service after September 27, 2017.

The provision for income taxes was comprised of the following:

| <i>(In thousands)</i>      | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|----------------------------|-------------|-------------|-------------|
| Current:                   |             |             |             |
| U.S. Federal               | \$ 35,025   | \$ 63,743   | \$ 87,521   |
| U.S. State and local       | 10,341      | 9,201       | 13,122      |
| Total current tax expense  | 45,366      | 72,944      | 100,643     |
| Deferred:                  |             |             |             |
| U.S. Federal               | 5,300       | 28,336      | (7,965)     |
| U.S. State and local       | 53          | 4,242       | (1,207)     |
| Total deferred tax expense | 5,353       | 32,578      | (9,172)     |
| Income tax provision       | \$ 50,719   | \$ 105,522  | \$ 91,471   |

In 2017, 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.

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. As noted above, we recorded the provisional tax impacts of the TCJA on existing current and deferred tax amounts in 2017. The ultimate impact differed from those provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions we made, and additional regulatory guidance that was issued. During the third quarter of 2018, we made approximately \$0.6 million in adjustments to our previously recorded provisional amounts related to the TCJA. During the fourth quarter of 2018, we finalized our estimate related to the TCJA and the adjustment was immaterial.

Net deferred tax assets fluctuated by items that are not reflected in deferred tax expense in the above table in 2017 and 2016. In 2017, net deferred tax assets increased by \$0.1 million as a result of ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. Net deferred tax assets decreased by \$10.4 million in 2016, 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>2018</b> | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|-------------|
| Statutory federal income tax rate                            | 21.0%       | 33.7%       | 35.0%       |
| Effect of:   |             |             |             |
| State and local income taxes, net of federal tax benefit     | 4.0         | 3.0         | 3.2         |
| Executive compensation limitations - permanent difference    | 0.7         | —           | —           |
| Provisional effect of the TCJA                               | (0.3)       | 1.5         | —           |
| Work opportunity tax and other employment tax credits        | (1.4)       | (1.0)       | (1.1)       |
| Excess tax detriment (benefit) from share-based compensation | 0.4         | (1.3)       | —           |
| Other, net   | —           | (0.2)       | 0.3         |
| Effective income tax rate                                    | 24.4%       | 35.7%       | 37.4%       |

Since the TCJA rate reduction was effective on January 1, 2018, our 2017 federal statutory tax rate was a blended rate of 33.7%.

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 2018, we recognized net tax deficiencies which increased income tax expense by \$1.0 million. In 2017, we recognized net excess tax benefits which reduced income tax expense by \$4.3 million.

Income tax payments and refunds were as follows:

| <i>(In thousands)</i> | 2018      | 2017      | 2016       |
|-----------------------|-----------|-----------|------------|
| Income taxes paid     | \$ 59,691 | \$ 99,693 | \$ 103,323 |
| Income taxes refunded | (474)     | (888)     | (16,187)   |
| Net income taxes paid | \$ 59,217 | \$ 98,805 | \$ 87,136  |

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>                                      | February 2, 2019 | February 3, 2018 |
|--|------------------|------------------|
| Deferred tax assets:                                       |                  |                  |
| Workers' compensation and other insurance reserves         | \$ 20,841        | \$ 21,106        |
| Uniform inventory capitalization                           | 18,454           | 13,591           |
| Compensation related                                       | 17,218           | 14,308           |
| Accrued rent   | 16,208           | 15,292           |
| Depreciation and fixed asset basis differences             | 10,497           | 8,435            |
| State tax credits, net of federal tax benefit              | 3,856            | 4,246            |
| Accrued state taxes  | 3,416            | 3,749            |
| Accrued operating liabilities                              | 1,316            | 537              |
| Other  | 11,767           | 11,623           |
| Valuation allowances, net of federal tax benefit           | (2,940)          | (2,311)          |
| Total deferred tax assets                                  | 100,633          | 90,576           |
| Deferred tax liabilities:                                  |                  |                  |
| Accelerated depreciation and fixed asset basis differences | 66,016           | 51,310           |
| Lease construction reimbursements                          | 13,917           | 11,542           |
| Prepaid expenses   | 4,285            | 5,559            |
| Workers' compensation and other insurance reserves         | 2,477            | 2,424            |
| Other  | 5,305            | 5,755            |
| Total deferred tax liabilities                             | 92,000           | 76,590           |
| Net deferred tax assets                                    | \$ 8,633         | \$ 13,986        |

We have the following income tax loss and credit carryforwards at February 2, 2019 (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         | \$ 15    | Expires fiscal years 2020              |
| California enterprise zone credits             | 4,566    | Predominately expires fiscal year 2023 |
| Other state credits                            | 315      | Expires fiscal years through 2025      |
| Total income tax loss and credit carryforwards | \$ 4,896 |  |

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for 2018, 2017, and 2016:

| <i>(In thousands)</i>                           | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|-------------|
| Unrecognized tax benefits - beginning of year   | \$ 11,673   | \$ 13,121   | \$ 13,772   |
| Gross increases - tax positions in current year | 1,649       | 361         | 822         |
| Gross increases - tax positions in prior period | 1,025       | 1,329       | 171         |
| Gross decreases - tax positions in prior period | (1,827)     | (1,385)     | (80)        |
| Settlements                                     | 403         | (319)       | (236)       |
| Lapse of statute of limitations                 | (937)       | (1,434)     | (1,328)     |
| Unrecognized tax benefits - end of year         | \$ 11,986   | \$ 11,673   | \$ 13,121   |

At the end of 2018 and 2017, the total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is \$9.4 million and \$9.2 million, respectively, after considering the federal tax benefit of state and local income taxes of \$1.8 million and \$2.1 million, respectively. Unrecognized tax benefits of \$0.8 million and \$0.6 million in 2018 and 2017, 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 (benefit) associated with interest and penalties on unrecognized tax benefits of approximately \$(0.7) million, \$0.1 million, and \$0.2 million during 2018, 2017, and 2016, respectively, as a component of income tax expense. The amount of accrued interest and penalties recognized in the accompanying consolidated balance sheets at February 2, 2019 and February 3, 2018 was \$5.4 million and \$6.1 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 2015 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 fiscal year ended February 2, 2013 have lapsed.

We have estimated the reasonably possible expected net change in unrecognized tax benefits through February 1, 2020, 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 \$4.0 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”). The consolidated complaint asserted various claims under Ohio law, including for breach of fiduciary duty. On October 18, 2013, a different shareholder filed an additional 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. On December 29, 2016, the Court ordered that the Brosz Action be consolidated with the Consolidated Derivative Action. On December 14, 2017, the parties entered into a Stipulation and Agreement of Settlement and plaintiffs filed an Unopposed Motion for Preliminary Approval of Derivative Settlement with the Court. On August 28, 2018, the Court issued an Order granting final approval of the Settlement.

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. Effective May 16, 2018, the parties executed a Stipulation of Settlement. On November 9, 2018, the Court issued an Order granting final approval of the Settlement. On November 9, 2018, the Court issued an Order granting final approval of the settlement.

In connection with the settlement of the Willis class action and the Consolidated Derivative Action, during the first quarter of 2018, we recorded a net charge of \$3.5 million related to the expected cost of the settlements for the funds in excess of our insurance coverage. During the second quarter of 2018, the settlement associated with the Willis class action was paid into escrow and has since been released.

#### ***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. 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.

#### ***California Wage and Hour Matters***

We currently are defending five purported wage and hour class actions in California, including several that have been brought since January 2018. The cases were brought by various current and/or former California associates alleging various violations of California wage and hour laws. 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 adverse effect on our financial condition, results of operation or cash flows.

#### ***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 \$55.9 million at February 2, 2019, 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 \$401.4 million, the entirety of which represents obligations due within one year of February 2, 2019. In addition, we have purchase commitments for future inventory purchases totaling \$1.3 million at February 2, 2019. We paid \$10.5 million, \$11.0 million, and \$18.2 million related to these commitments during 2018, 2017, and 2016, 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, which we anticipated will occur in the first quarter of 2019. We have additional purchase obligations in the amount of \$338.9 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 2, 2019</b> | <b>February 3, 2018</b> |
|----------------------------------|-------------------------|-------------------------|
| Diesel fuel collars (in gallons) | 7,200                   | 3,600                   |

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 2, 2019</b>     | <b>February 3, 2018</b> |
| Diesel fuel collars                 | Other current assets          | \$ 523                      | \$ 312                  |
|                                     | Other assets                  | 203                         | 262                     |
|                                     | Accrued operating expenses    | (586)                       | (77)                    |
|                                     | Other liabilities             | (825)                       | (107)                   |
| <b>Total derivative instruments</b> |                               | <b>\$ (685)</b>             | <b>\$ 390</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>2018</b>                   | <b>2017</b>   | <b>2016</b>     |
| Diesel fuel collars                 |  |                               |               |                 |
|                                     | Realized                                 | Other income (expense) \$ 455 | \$ (756)      | \$ (2,299)      |
| Unrealized                          | Other income (expense)                   | (1,075)                       | 1,398         | 3,657           |
| <b>Total derivative instruments</b> |  | <b>\$ (620)</b>               | <b>\$ 642</b> | <b>\$ 1,358</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 2016:

| <i>(In thousands)</i>  | <b>2016</b> |
|--|-------------|
| <b>Beginning of Period</b>                                     | \$ (15,977) |
| Other comprehensive income before reclassifications            | (185)       |
| Amounts reclassified from accumulated other comprehensive loss | 16,162      |
| Net period change  | 15,977      |
| <b>End of Period</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>2018</b>  | <b>2017</b>  | <b>2016</b>  |
|----------------------------------|--------------|--------------|--------------|
| Furniture                        | \$ 1,289,133 | \$ 1,236,737 | \$ 1,195,365 |
| Soft Home                        | 826,313      | 789,596      | 750,814      |
| Consumables                      | 799,038      | 822,533      | 817,747      |
| Food                             | 782,988      | 818,387      | 824,414      |
| Seasonal                         | 765,619      | 765,674      | 738,756      |
| Hard Home                        | 407,596      | 428,788      | 437,575      |
| Electronics, Toys, & Accessories | 367,418      | 402,647      | 429,324      |
| Net sales                        | \$ 5,238,105 | \$ 5,264,362 | \$ 5,193,995 |

**NOTE 15 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

Summarized fiscal quarterly financial data for 2018 and 2017 is as follows:

| <b>Fiscal Year 2018</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   | \$ 1,267,983 | \$ 1,222,169  | \$ 1,149,402 | \$ 1,598,551  | \$ 5,238,105 |
| Gross margin  | 511,958      | 491,419       | 459,174      | 659,344       | 2,121,895    |
| Net income  | 31,239       | 24,164        | (6,556)      | 108,047       | 156,894      |

|                     |         |         |           |         |         |
|---------------------|---------|---------|-----------|---------|---------|
| Earnings per share: |         |         |           |         |         |
| Basic               | \$ 0.74 | \$ 0.59 | \$ (0.16) | \$ 2.70 | \$ 3.84 |
| Diluted             | 0.74    | 0.59    | (0.16)    | 2.68    | 3.83    |

| <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   | \$ 1,294,970 | \$ 1,219,597  | \$ 1,109,184 | \$ 1,640,611  | \$ 5,264,362 |
| 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    |

- (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 6, 2019, our Board of Directors authorized the repurchase of up to \$50.0 million of our common shares (“2019 Repurchase Program”). Pursuant to the 2019 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 2019 Repurchase Program will be available to meet obligations under our equity compensation plans and for general corporate purposes. The 2019 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 2018 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 Officer 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 Officer 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 2, 2019. 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 Officer and Principal Financial Officer, concluded that we maintained effective internal control over financial reporting as of February 2, 2019.

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 our definitive Proxy Statement for our annual meeting of Shareholders to be held on May 30, 2019 (“2019 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.

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 any amendments to, and any waivers from, 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 addressed to our principal executive offices at 4900 E. Dublin-Granville Road, Columbus, Ohio 43081.

#### Item 11. Executive Compensation

The information contained under the caption “Governance” with respect to Compensation Committee interlocks and insider participation and under the captions “Director Compensation,” “Executive Compensation” and “Compensation Committee Report” in the 2019 Proxy Statement 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, 2019, relating to our equity compensation plans pursuant to which our common shares may be issued.

| <b>Plan Category</b>                                       | <b>Number of securities to be issued upon exercise of outstanding options, warrants, and rights (#)</b> | <b>Weighted-average exercise price of outstanding options, warrants, and rights (\$)</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#)</b> |
|--|---|--|--|
|  | <b>(a)</b>  | <b>(b)</b>   | <b>(c)</b>   |
| Equity compensation plans approved by security holders     | 1,465,014 (1)(2)  | 38.30 (3)  | 4,708,009 (4)  |
| Equity compensation plans not approved by security holders | —   | —  | —  |
| <b>Total</b>   | <b>1,465,014</b>  | <b>38.30 (3)</b>   | <b>4,708,009</b>   |

(1) Includes stock options, PSUs, and restricted stock units granted under the 2017 LTIP, the 2012 LTIP, and the 2005 LTIP.

(2) The common shares issuable upon exercise of outstanding stock options granted under each shareholder-approved plan are as follows:

|           |         |
|-----------|---------|
| 2012 LTIP | 160,001 |
| 2005 LTIP | 77,500  |

(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 4,708,009 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 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 2019 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” in the 2019 Proxy Statement, with respect to the determination of director independence and related person transactions, 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” in the 2019 Proxy Statement, with respect to our audit and non-audit services pre-approval policy and the fees paid to our independent registered public accounting firm, 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 10.46 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              | 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 Restricted Stock Units Retention Award Agreement (incorporated herein by reference to Exhibit 10.1 to our Form 10-Q for the quarter ended August 4, 2018).   |
| 10.18              | 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).         |
| 10.19              | 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).               |
| 10.20              | 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)).           |
| 10.21              | 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).                       |
| 10.22              | 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).                               |
| 10.23              | 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).   |
| 10.24              | 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).  |
| 10.25              | 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).   |
| 10.26              | 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).   |
| 10.27              | 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).   |
| 10.28              | Executive Employment Agreement with David J. Campisi (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated March 17, 2015).   |

| <u>Exhibit No.</u> | <u>Document</u>   |
|--------------------|---|
| 10.29              | Offer Letter with Bruce Thorn (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated August 21, 2018).   |
| 10.30              | Separation Agreement with David J. Campisi (incorporated herein by reference to Exhibit 10.1 to our Form 10-Q for the quarter ended May 5, 2018) (File No. 1-8897).   |
| 10.31              | 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).   |
| 10.32              | 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).  |
| 10.33              | 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).  |
| 10.34              | 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).   |
| 10.35              | Big Lots Executive Severance Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated August 28, 2014).   |
| 10.36              | 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).   |
| 10.37              | 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). |
| 10.38              | 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). |
| 10.39              | 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).                          |
| 10.40              | Credit Agreement, dated August 31, 2018, by and among Big Lots, Inc. and 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 August 29, 2018).         |
| 10.41              | 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).  |
| 10.42              | 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).   |
| 10.43              | 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).  |
| 10.44              | AVDC Participation Agreement incorporated herein by reference to Exhibit 10.40 to our Form 10-K for the year ended February 3, 2018) (File No. 1-8897).   |
| 10.45              | AVDC Lease Agreement (Real Property) (incorporated herein by reference to Exhibit 10.41 to our Form 10-K for the year ended February 3, 2018) (File No. 1-8897).  |
| 10.46              | AVDC Construction Agency Agreement (incorporated herein by reference to Exhibit 10.42 to our Form 10-K for the year ended February 3, 2018) (File No. 1-8897).  |
| 21*                | Subsidiaries.   |
| 23*                | Consent of Deloitte & Touche LLP.   |
| 24*                | Power of Attorney for Jeffrey P. Berger, James R. Chambers, Sebastian J. DiGrande, Marla C. Gottschalk, Cynthia T. Jamison, Christopher J. McCormick, Nancy A. Reardon, and Wendy L. Schoppert.   |
| 31.1*              | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2*              | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1*              | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2*              | Certification of Principal 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 2<sup>nd</sup> day of April 2019.

### BIG LOTS, INC.

By: /s/ Bruce K. Thorn

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Bruce K. Thorn

*President and Chief Executive Officer*

(Principal Executive 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 2<sup>nd</sup> day of April 2019.

By: /s/ Bruce K. Thorn

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Bruce K. Thorn

*President and Chief Executive Officer*

(Principal Executive Officer)

By: /s/ Timothy A. Johnson

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Timothy A. Johnson

*Executive Vice President, Chief Administrative Officer  
and Chief Financial Officer*

(Principal Financial Officer, Principal Accounting Officer  
and Duly Authorized Officer)

/s/ Jeffrey P. Berger \*

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Jeffrey P. Berger

Director

/s/ Cynthia T. Jamison \*

---

Cynthia T. Jamison

Director

/s/ James R. Chambers \*

---

James R. Chambers

Director

/s/ Christopher J. McCormick \*

---

Christopher J. McCormick

Director

/s/ Sebastian J. DiGrande \*

---

Sebastian J. DiGrande

Director

/s/ Nancy A. Reardon \*

---

Nancy A. Reardon

Director

/s/ Marla C. Gottschalk \*

---

Marla C. Gottschalk

Director

/s/ Wendy L. Schoppert \*

---

Wendy L. Schoppert

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 6<sup>th</sup> day of March 2019, 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 2, 2019, 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 2, 2019.

- 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 2, 2019

## 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 2, 2019, 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 6, 2019.

| <u>Signature</u>  | <u>Title</u> |
|---|--------------|
| <u>/s/ Jeffrey P. Berger</u><br>Jeffrey P. Berger               | Director     |
| <u>/s/ James R. Chambers</u><br>James R. Chambers               | Director     |
| <u>/s/ Sebastian J. DiGrande</u><br>Sebastian J. DiGrande       | Director     |
| <u>/s/ Marla C. Gottschalk</u><br>Marla C. Gottschalk           | Director     |
| <u>/s/ Cynthia T. Jamison</u><br>Cynthia T. Jamison             | Director     |
| <u>/s/ Christopher J. McCormick</u><br>Christopher J. McCormick | Director     |
| <u>/s/ Nancy A. Reardon</u><br>Nancy A. Reardon                 | Director     |
| <u>/s/ Wendy L. Schoppert</u><br>Wendy L. Schoppert             | Director     |

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

I, Bruce K. Thorn, 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 2, 2019

By: /s/ Bruce K. Thorn

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Bruce K. Thorn

*President and Chief Executive Officer*

(Principal Executive Officer)

**CERTIFICATION OF 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 2, 2019

By: /s/ Timothy A. Johnson

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Timothy A. Johnson

*Executive Vice President, Chief Administrative Officer*

*and Chief Financial Officer*

(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 2, 2019, of Big Lots, Inc. (the “Company”). I, Bruce K. Thorn, President and Chief Executive 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 2, 2019

By: /s/ Bruce K. Thorn

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Bruce K. Thorn

*President and Chief Executive Officer*

(Principal Executive Officer)

**CERTIFICATION OF 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 2, 2019, 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 2, 2019

By: /s/ Timothy A. Johnson

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Timothy A. Johnson

*Executive Vice President, Chief Administrative Officer  
and Chief Financial Officer*

(Principal Financial Officer)



#### **Transfer Agent & Registrar**

Computershare  
Meidinger Tower  
462 S 4th St  
Louisville, KY 40202  
877.581.5548  
(Within USA, US territories & Canada)  
781.575.2879  
(Outside USA, US territories & Canada)  
computershare.com/investor

#### **Investment Inquiries**

Investor Relations Department  
4900 E Dublin Granville Rd  
Columbus, OH 43081  
614.278.6622  
Investor\_Relations@biglots.com

#### **Independent Registered Public Accounting Firm**

Deloitte & Touche LLP  
180 E Broad St, Ste 1400  
Columbus, OH 43215

#### **NYSE Trading Symbol**



#### **Telephone**

614.278.6800

#### **Website**

biglots.com

#### **Email**

talk2us@biglots.com

## **About Our Company**

Headquartered in Columbus, Ohio, Big Lots, Inc. (NYSE: BIG) is a discount retailer operating approximately 1,400 stores in 47 states with product assortments in the merchandise categories of Furniture, Seasonal, Soft Home, Food, Consumables, Hard Home, and Electronics, Toys & Accessories. Our mission is to help people Live BIG and Save Lots. We strive to be the BIG difference for a better life by delivering unmatched value to our customers through surprise and delight, being a “best places to work” culture for our associates, rewarding our shareholders with consistent growth and top tier returns, and doing good in our communities as we do well.

### **Notice of Annual Meeting**

The Annual Meeting of Shareholders will be held at 9:00 a.m. EDT on Thursday, May 30, 2019, at our corporate headquarters, 4900 E Dublin Granville Rd, Columbus, OH 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.



**BIGLOTS!**

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