

BIG LOTS INC
Form DEF 14A
April 15, 2008

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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

Filed by the Registrant
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Big Lots, Inc.

(Name of Registrant as Specified In Its Charter)

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4) Date Filed:

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

April 15, 2008

Dear Shareholder:

We cordially invite you to attend the 2008 Annual Meeting of Shareholders of Big Lots, Inc. The Annual Meeting will be held at our corporate offices located at 300 Phillipi Road, Columbus, Ohio, on May 29, 2008, beginning at 9:00 a.m. EDT.

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, you are urged to vote as soon as possible. If you attend the Annual Meeting, you may revoke your proxy and vote in person if you wish, even if you have previously voted.

We have elected to take advantage of new Securities and Exchange Commission rules that allow us to furnish proxy materials to shareholders on the Internet. On or about the date of this letter, we began mailing a Notice of Internet Availability of Proxy Materials to shareholders of record at the close of business on March 31, 2008. At the same time, we provided those shareholders with Internet access to our proxy materials and filed our proxy materials with the Securities and Exchange Commission. We believe the new rules will allow us to provide our shareholders with the information they need, while lowering the costs of delivery and reducing the environmental impact of the Annual Meeting.

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

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

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

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 29, 2008**

Notice is hereby given that the 2008 Annual Meeting of Shareholders of Big Lots, Inc. will be held at our corporate offices located at 300 Phillipi Road, Columbus, Ohio, on May 29, 2008, beginning at 9:00 a.m. EDT, for the following purposes:

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1. To elect nine directors of Big Lots, Inc.;
 2. To consider and vote upon a proposal to approve amendments to the Big Lots 2005 Long-Term Incentive Plan;
 3. To consider and vote upon a proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2008; 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, March 31, 2008, are entitled to notice of and to vote at the Annual Meeting and any postponement or adjournment thereof.

By Order of the Board of Directors,

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

April 15, 2008
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 voted.

BIG LOTS, INC.

PROXY STATEMENT

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

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the "Board") of Big Lots, Inc., an Ohio corporation (we, us, our and Big Lots), for use at the 2008 Annual Meeting of Shareholders to be held on May 29, 2008 (the "Annual Meeting"), at our corporate offices located at 300 Phillip Road, Columbus, Ohio at 9:00 a.m. EDT. On or about April 15, 2008, we began mailing to our shareholders of record at the close of business on March 31, 2008, a Notice of Internet Availability containing instructions on how to access the Notice of Annual Meeting of Shareholders, this Proxy Statement and our Annual Report to Shareholders for the fiscal year ended February 2, 2008 (fiscal 2007).

ABOUT THE ANNUAL MEETING

Purpose of the Annual Meeting

At the Annual Meeting, shareholders will act upon the matters outlined in the Notice of Annual Meeting included with this Proxy Statement. Specifically, the shareholders will be asked to (i) elect nine members to our Board, (ii) approve amendments to the Big Lots 2005 Long-Term Incentive Plan (the "2005 Incentive Plan"), (iii) ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 31, 2009 (fiscal 2008), and (iv) transact such other business as may properly come before the Annual Meeting.

Shareholder Voting Rights

Only those shareholders of record at the close of business on March 31, 2008, 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 81,372,933 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 common shares have no cumulative voting rights in the election of directors. All voting shall be governed by our Code of Regulations and the General Corporation Law of the State of Ohio and, in the case of Proposal Two, the rules of the New York Stock Exchange (□NYSE□).

Registered Shareholders and Beneficial Shareholders

If our common shares are registered in your name directly with our transfer agent, National City Bank, you are considered, with respect to those common shares, a registered shareholder. If our common shares are held for you in a brokerage account or by a bank or other holder of record, you are considered the beneficial shareholder of the common shares held in street name.

Internet Availability of Proxy Materials

In accordance with rules recently adopted by the Securities and Exchange Commission (□SEC□), instead of mailing a printed copy of our proxy materials to each shareholder of record, we may now 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. Shareholders will not receive printed copies of the proxy materials unless they request them.

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

For beneficial shareholders, a notice directing you to the website at which you will find our proxy materials has been forwarded to you by your broker, bank or other holder of record who is considered, with respect to those common shares, the registered shareholder. Your broker, bank or other holder of record also provided instructions on how you may request a paper or email copy of our proxy materials, if you prefer. 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 received 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 to register online at www.proxyvote.com by indicating that you agree to receive or access shareholder communications electronically in future years.

Attendance at the Annual Meeting

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

How to Vote

After receiving the Notice of Internet Availability, registered shareholders are urged to visit www.proxyvote.com to access our proxy materials. You will have the opportunity to vote your common shares online at www.proxyvote.com until May 28, 2008 at 11:59 p.m. EDT. 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. If, after receiving the Notice of Internet Availability, you request (via toll-free telephone number, e-mail or online)

that we send you paper or electronic copies of our proxy materials, you may vote your common shares by completing, dating and signing the proxy card and returning it in the envelope included with our mailing. If you properly complete your proxy online or you complete, date, sign and return your proxy card, your common shares will be voted as you direct. If you are a registered shareholder and attend the Annual Meeting, you may deliver your completed proxy card in person.

Beneficial shareholders are able to instruct the broker, bank or other holder of record how to vote their common shares by following the directions provided by their broker, bank or other holder of record. Please contact your broker, bank or other holder of record to determine the means by which beneficial shareholders can direct voting and the applicable deadlines. Additionally, beneficial shareholders who wish to vote at the Annual Meeting will need to obtain a completed form of proxy from the broker, bank or other holder of record who is the registered holder of the common shares.

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

Householding

SEC rules allow multiple shareholders residing at the same address the convenience of receiving a single copy of the annual report to shareholders, proxy statement and Notice of Internet Availability if they consent to do so (householding). Householding is permitted only in certain circumstances, including when you have the same last name and address as another shareholder. If the required conditions are met, and SEC regulations allow, your household may receive a single copy of the annual report to shareholders, proxy statement and Notice of Internet

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Availability. Upon request, we will promptly deliver a separate copy of the annual report to shareholders, proxy statement and Notice of Internet Availability, as applicable, to a shareholder at a shared address to which a single copy of the document(s) was delivered. Such a request should be made in the same manner as a revocation of consent for householding.

You may revoke your consent for householding at any time by contacting Broadridge Financial Solutions, Inc. (Broadridge), either by calling 1-800-542-1061, 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 receive separate copies of these documents.

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

Tabulation of Votes

Tabulation of the votes cast at the Annual Meeting will be performed by Broadridge, as inspected by our duly appointed inspectors of election.

Board's Recommendations

Subject to revocation, all proxies that are properly completed and timely received will be voted in accordance with the instructions contained therein. If no instructions are given (excluding broker non-votes), the persons named as proxy holders will vote the common shares in accordance with the recommendations of the Board. The Board's recommendations are set forth together with the description of each proposal in this Proxy Statement. In summary, the Board recommends a vote (i) FOR the election of the nominated slate of directors (see Proposal One), (ii) FOR the approval of amendments to the 2005 Incentive Plan (see Proposal Two), and (iii) FOR the ratification of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2008 (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.

Vote Required to Approve a Proposal

Proposal One

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

Other Matters

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

If you are a beneficial shareholder, your broker, bank or other holder of record may not be permitted to exercise discretionary voting power with respect to some of the matters to be acted upon. Thus, if you do not give your broker, bank or other holder of record specific voting instructions, your common shares may not be voted on those matters and will not be counted in determining the number of common shares necessary for approval. Under

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NYSE rules, your broker, bank or other holder of record may not vote your common shares on Proposal Two absent instructions from you. Without your voting instructions on this matter, a broker non-vote will occur. Common shares represented by broker non-votes will, however, be counted in determining whether there is a quorum.

Quorum

The presence, in person or by proxy, of the holders of a majority of the outstanding common shares entitled to be voted at the Annual Meeting will constitute a quorum, permitting 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 represented at the Annual Meeting for purposes of establishing a quorum.

PROPOSAL ONE: ELECTION OF DIRECTORS

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. All nine nominees are currently directors on our Board. Proxies cannot be voted at the Annual Meeting for more than nine persons.

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

Name	Age	Principal Occupation for the Past Five or More Years	Director Since
Jeffrey P. Berger	58		2006

Sheldon M. Berman	67	Executive Vice President, Global Foodservice, and President and Chief Executive Officer, Heinz North America Foodservice (manufacturer and marketer of processed food products). Chairman, Chief Executive Officer and President, Xtream Creative, Inc. (business planning, marketing planning, and advertising services).	1994
Steven S. Fishman	57	Chairman, Chief Executive Officer and President of Big Lots; former President, Chief Executive Officer and Chief Restructuring Officer, Rhodes, Inc. (furniture retailer) □ Rhodes, Inc. filed for bankruptcy on November 4, 2004; former Chairman and Chief Executive Officer, Frank's Nursery & Crafts, Inc. (lawn and garden specialty retailer) □ Frank's Nursery & Crafts, Inc. filed for bankruptcy on September 8, 2004; former President and Founder, SSF Resources, Inc. (investment and consulting).	2005
David T. Kollat	69	President and Founder, 22, Inc. (research and management consulting).	1990
Brenda J. Lauderback	57	Former President □ Wholesale Group, Nine West Group, Inc. (retail and wholesale footwear); former President □ Footwear Wholesale, U.S. Shoe Corporation (retail and wholesale footwear); former Vice President, General Merchandise Manager, Dayton Hudson Corporation (retail stores).	1997
Philip E. Mallott	50	Independent financial consultant; retail stock analyst, Coker & Palmer (securities brokerage services); former Vice President and Chief Financial Officer, Intimate Brands, Inc. (retail stores).	2003
Russell Solt	60	Former Director of Investor Relations, West Marine, Inc. (specialty retailer and catalog company); former Executive Vice President and Chief Financial Officer, West Marine, Inc.	2003
James R. Tener	58	Former President and Chief Operating Officer, Brook Mays Music Company (retail and wholesale music) □ Brook Mays Music Company filed for bankruptcy on July 11, 2006; former Chief Operating Officer, The Sports Authority (sporting goods retailer).	2005
Dennis B. Tishkoff	64	Chairman and Chief Executive Officer, Drew Shoe Corporation (footwear manufacturer, importer, exporter, retailer and wholesaler); President, Tishkoff and Associates, Inc. (retail consultant); former President and Chief Executive Officer, Shoe Corporation of America (footwear retailer).	1991

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

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GOVERNANCE

Current Members of the Board

The members of the Board as of the date of this Proxy Statement, and the committees of the Board on which they serve, are identified below. The Board has standing Audit, Compensation, and Nominating/Corporate Governance Committees. Each committee reports on its activities to the Board.

Director	Audit Committee	Compensation Committee	Nominating/Corporate Governance Committee
Jeffrey P. Berger	*		
Sheldon M. Berman			*
Steven S. Fishman			
David T. Kollat			**
Brenda J. Lauderback			*

Philip E. Mallott	**	
Russell Solt	*	*
James R. Tener		*
Dennis B. Tishkoff		**

* Committee Member

** Committee Chair

Board Meetings in Fiscal 2007

Five meetings of the Board were held during fiscal 2007. During fiscal 2007, each director attended at least 75% of the aggregate of all meetings of the Board and all meetings held by the committees on which he or she served (in each case, held during the periods that he or she served). It is our policy that each director nominee standing for election be present at the annual meeting of shareholders. Each director listed above attended the most recent annual meeting of shareholders held in May 2007. Under our Corporate Governance Guidelines, each director is expected to dedicate sufficient time and attention to ensure the diligent performance of his or her duties, including attending meetings of the shareholders, the Board, and the committees of which he or she is a member.

Role of the Board's Committees

Audit Committee

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibility with respect to: (i) the integrity of the financial reports and other financial information provided by us to our shareholders and others; (ii) our compliance with legal and regulatory requirements; (iii) the engagement of our independent registered public accounting firm and the evaluation of the firm's qualifications, independence and performance; (iv) the performance of our system of internal controls; and (v) our audit, accounting and financial reporting processes generally. The Audit Committee was established in accordance with the Securities Exchange Act of 1934, as amended ("Exchange Act"), and each of its members is independent as required by the Audit Committee's charter and by the applicable NYSE and SEC rules. The Board has determined that Mr. Mallott, Mr. Berger and Mr. Solt each satisfy the standards for an "audit committee financial expert," as defined by applicable SEC rules. Each member of the Audit Committee is "financially literate," as required by NYSE 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) under the "Corporate Governance" caption. A copy may also be obtained, without charge, upon written request to our Corporate Secretary. The Audit Committee met eight times during fiscal 2007.

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Compensation Committee

The Compensation Committee discharges the responsibilities of the Board relating to the administration of our compensation programs, including the compensation program for the members of our executive management committee ("EMC"). The EMC is currently comprised of 11 employees - the five executives named in the Summary Compensation Table ("named executive officers") and all other executive vice presidents and senior vice presidents.

The Compensation Committee is involved in establishing our general compensation philosophy, overseeing the development of our compensation programs, reviewing and recommending to the Board the compensation for the EMC members, administering our equity-based compensation plans, and reporting on the entirety of the executive compensation program to the Board. All members of the Compensation Committee are independent as required by the Committee's charter and NYSE rules.

The functions of the Compensation Committee are further described in its charter, which is available in the Investor Relations section of our website (www.biglots.com) under the "Corporate Governance" caption. A copy may also be obtained, without charge, upon written request to our Corporate Secretary. The Compensation Committee met 12 times during fiscal 2007.

Nominating/Corporate Governance Committee

The Nominating/Corporate Governance Committee is responsible for recommending individuals to the Board for nomination as members of the Board and its committees and taking a leadership role in shaping our corporate governance policies and practices, including recommending to the Board changes to our Corporate Governance Guidelines and monitoring compliance with such guidelines. 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) under the "Corporate Governance" caption. A copy may also be obtained, without charge, upon written request to our Corporate Secretary. The Nominating/Corporate Governance Committee met four times during fiscal 2007.

The Corporate Governance Guidelines, which comply with NYSE rules, can be found in the Investor Relations section of our website (www.biglots.com) under the "Corporate Governance" caption. A copy may also be obtained, without charge, upon written request to our Corporate Secretary.

Presiding Member of the Board

The Board has a presiding director whose primary responsibility is to preside over executive sessions of the Board in which management directors and other members of management are not present. The role of presiding director is rotated among the independent, non-management directors ("outside directors"). The presiding director is responsible for establishing an agenda for the session over which he or she presides and, upon the conclusion of an executive session of the Board, meeting with our chief executive officer ("CEO") to address the matters discussed during the executive session.

Determination of Director Independence

Pursuant to the Corporate Governance Guidelines, the Board undertook its most recent annual review of director independence in March 2008. During this annual review, the Board considered all transactions and relationships between each director, his or her affiliates, and any member of his or her immediate family, on one hand, and Big Lots, its subsidiaries and members of senior management, on the other hand. The purpose of this review was to determine whether any such transactions or relationships were inconsistent with a determination that the director is independent in accordance with NYSE rules.

As a result of this review, the Board affirmatively determined that, with the exception of Mr. Fishman, 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 by 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. Mr. Fishman is not an independent director due to his employment with Big Lots.

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In determining that each of the directors other than Mr. Fishman is independent, the Board considered that, in the ordinary course of business, transactions may occur between Big Lots or its subsidiaries and companies at which some of our directors are or have been executive officers. In each such case, the amount of any transactions with these companies in each of the last three years did not approach the disqualifying thresholds set forth in the NYSE rules. The Board also considered charitable contributions to not-for-profit organizations of which our directors or immediate family members are executive officers or directors, none of which approached the disqualifying thresholds set forth in the NYSE rules. The Board determined that each of the transactions and relationships it considered was immaterial and did not impair the independence of any of the directors.

Selection of Nominees by the Board

The Nominating/Corporate Governance Committee has oversight over a broad range of issues surrounding the composition and operation of the Board. The Nominating/Corporate Governance Committee is responsible for recommending to the Board the appropriate skills and qualifications required of Board members, based on our needs from time to time. The Nominating/Corporate Governance Committee also evaluates prospective director nominees against the standards and qualifications set forth in the Corporate Governance Guidelines. Although

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

In identifying potential candidates for Board membership, the Nominating/Corporate Governance Committee considers recommendations from the Board, shareholders and management. A shareholder who wishes to recommend a prospective director nominee to the Board must send written notice to: Chair of the Nominating/Corporate Governance Committee, Big Lots, Inc., 300 Phillipi Road, Columbus, Ohio 43228. The written notice must include the prospective nominee's name, age, business address, principal occupation, ownership of our common shares, information that would be required under the rules of the SEC in a proxy statement soliciting proxies for the election of such prospective nominee as a director, and any other information that is deemed relevant by the recommending shareholder. Shareholder recommendations that comply with these procedures and that meet the factors outlined above will receive the same consideration that the recommendations of the Board and management receive.

Pursuant to its written charter, the Nominating/Corporate Governance Committee has the authority to retain consultants and search firms to assist in the process of identifying and evaluating director candidates and to approve the fees and other retention terms for any such consultant or search firm. No such firm was retained in connection with the selection of the director nominees proposed for election at the Annual Meeting.

After completing the evaluation of a prospective nominee, the Nominating/Corporate Governance Committee may make a recommendation to the Board that the targeted individual be nominated by the Board, and the Board then decides whether to approve a nominee after considering the recommendation and report of the Nominating/Corporate Governance Committee. Any invitation to join the Board is extended to a prospective nominee through the chair of the Nominating/Corporate Governance Committee and our CEO, after approval by the Board.

Compensation Committee Interlocks and Insider Participation

During fiscal 2007, Mr. Kollat, Ms. Lauderback, Mr. Solt, Mr. Tener and Mr. Tishkoff served on our Compensation Committee. No member of our Compensation Committee serves or has served at any time as one of our officers or employees or is a party to any related person transaction, as defined in Item 404 of Regulation S-K. None of our executive officers serve as a member of the board of directors or compensation committee of any other company that has an executive officer serving as a member of our Board or Compensation Committee.

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Other Directorships

Mr. Kollat is a director of Limited Brands, Inc., Select Comfort Corporation and Wolverine World Wide, Inc. Mr. Kollat serves on the finance committee at Limited Brands, Inc., the corporate governance and nominating committee at Select Comfort Corporation, and the compensation committee and the audit committee at Wolverine World Wide, Inc. Ms. Lauderback is a director of Select Comfort Corporation, Wolverine World Wide, Inc., Denny's Corporation and Irwin Financial Corporation. Ms. Lauderback is a member of the corporate governance and nominating committee at Select Comfort Corporation, the audit committee at Wolverine World Wide, Inc., the compensation and incentives committee at Denny's Corporation, and both the audit and compensation committees at Irwin Financial Corporation. Mr. Mallott is a director of Tween Brands, Inc., where he also serves as the chair of the audit committee.

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

We have a Code of Business Conduct and Ethics, which is applicable to all of our directors and employees, including our principal executive officer, our principal financial officer, and our principal accounting officer. We also have a separate Code of Ethics for Financial Professionals which is applicable to our CEO and all other senior financial officers, as that term is defined therein. Both the Code of Business Conduct and Ethics and the

Code of Ethics for Financial Professionals are available in the Investor Relations section of our website (www.biglots.com) under the "Corporate Governance" caption. A copy may also be obtained, without charge, upon written request to our Corporate Secretary. 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, at this location on our website.

Related Person Transactions

The Board and the Nominating/Corporate Governance Committee have the responsibility for monitoring compliance with our corporate governance policies, practices and guidelines applicable to our directors, nominees for director, officers and employees. The Board and the Nominating/Corporate Governance Committee have also enlisted the assistance of our General Counsel and human resources management to fulfill this duty.

The Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Financial Professionals, and various 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.

In addition, on an annual basis, each director, nominee for director and executive officer is obligated to complete a questionnaire which requires disclosure of any transaction in which Big Lots was or is to be a participant in which the director, nominee or executive officer, or any member of his or her immediate family, had or will have a direct or indirect material interest. These questionnaires are reviewed by the Nominating/Corporate Governance Committee and our General Counsel to identify any potential conflicts of interest or other transactions that the Board should review in light of the SEC rules regarding the disclosure of related person transactions, as well as the Corporate Governance Guidelines, the Code of Business Conduct and Ethics, the Code of Ethics for Financial Professionals, and various human resources policies. Based on our most recent review in the first quarter of fiscal 2008, we believe that no such disclosure is required under SEC rules.

As necessary, the Board also reviews proposed transactions in which we and any other related person (e.g., a holder of more than five percent of our common shares) are participants. In fiscal 2007, the Board reviewed and approved a structured share repurchase transaction and other share repurchase transactions with Goldman Sachs & Co., an affiliate of Goldman Sachs Asset Management, L.P., who was, at the time of our entry into such transactions, believed by us to be the beneficial owner of more than five percent of our common shares. In connection with these transactions, which were part of two publicly-announced common share repurchase programs totaling \$750 million, we paid \$100 million to Goldman Sachs & Co. in exchange for our common shares under the structured share repurchase transaction and three cents per share as a broker's trading commission in connection with \$575 million of other share repurchase transactions.

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Communications with the Board

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

Call the Board at: (866) 834-7325

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

E-mail the Board at: www.ci-wackenhut.com/getreal.htm

Under a process approved by the Nominating/Corporate Governance Committee for handling correspondence received by us and addressed to outside 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 members of the Audit Committee. Concerns

relating to the Board or members of senior management will be referred to the members of the Nominating/Corporate Governance Committee. Parties submitting communications to the Board may choose to do so anonymously or confidentially. Except when communications are sent anonymously or confidentially, parties sending written communications to the Board will receive a written acknowledgement upon our receipt of the communication.

DIRECTOR COMPENSATION

Retainers and Fees

Under the Big Lots, Inc. Non-Employee Director Compensation Package established by the Board, each outside director is compensated for Board and committee participation. The retainers and fees for outside directors in fiscal 2007 consisted of: (i) an annual retainer of \$45,000; (ii) an additional annual retainer of \$10,000 for the chair of the Audit Committee; (iii) an additional annual retainer of \$5,000 for the chairs of the Compensation Committee and the Nominating/Corporate Governance Committee; (iv) \$1,500 for each Board meeting attended in person; (v) \$1,000 for each committee meeting attended in person; (vi) \$500 for each Board or committee meeting attended telephonically; and (vii) the ability to nominate a charity to receive a donation of up to \$10,000 from us. During fiscal 2007, Messrs. Berger, Berman, Kollat, Mallott, Solt, Tener and Tishkoff, and Ms. Lauderback qualified as outside directors and, thus, received compensation for their Board service. Due to his employment with us, Mr. Fishman did not qualify as an outside director and did not receive compensation for his service as a director. The compensation received by Mr. Fishman as an employee is shown in the Summary Compensation Table included in this Proxy Statement.

Stock Options

In addition to the retainers and fees, outside directors receive an annual stock option grant under the Big Lots, Inc. Amended and Restated Director Stock Option Plan (the "Director Stock Option Plan"). The number of common shares available under the Director Stock Option Plan initially consisted of the original allocation of 500,000 common shares (781,250 common shares as adjusted to account for the five-for-four stock splits which occurred in December 1996 and June 1997). The Director Stock Option Plan is administered by the Compensation Committee. Neither the Board nor the Compensation Committee exercises any discretion in administering the Director Stock Option Plan, and the administration performed by the Compensation Committee is ministerial in nature. A formula set forth in the Director Stock Option Plan provides for an automatic annual grant of stock options to each outside director. The formula which governs the grant of stock options to eligible participants may be amended by the Board, but not more frequently than once in any six-month period. Under the current formula, each outside director is granted annually an option to acquire 10,000 of our common shares at an exercise price equal to the closing price of our common shares on the NYSE on the grant date.

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During fiscal 2007, each of the outside directors received an option to acquire 10,000 of our common shares pursuant to the Director Stock Option Plan. These stock options automatically terminate 10 years and one month following the grant date and become exercisable over three years beginning upon the first anniversary of the grant date — 20% of the common shares on the first anniversary, 60% on the second anniversary, and 100% on the third anniversary.

If Proposal Two is approved by our shareholders, the common shares remaining available for issuance under the Director Stock Option Plan will not be used and future equity awards to outside directors will be made under the 2005 Incentive Plan.

Director Compensation Table

The following table summarizes the compensation earned by each outside director for his or her Board service in fiscal 2007.

**Change
in
Pension
Value
and**

Name	Nonqualified						Total
	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Deferred Compensation	All Other Compensation	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Mr. Berger	55,000	□	38,215	□	□	10,000	103,215
Mr. Berman	55,500	□	54,399	□	□	□	109,899
Mr. Kollat	62,000	□	54,399	□	□	□	116,399
Ms. Lauderback	55,000	□	54,399	□	□	10,000	119,399
Mr. Mallott	67,500	□	54,399	□	□	10,000	131,899
Mr. Solt	67,000	□	54,399	□	□	10,000	131,399
Mr. Tener	61,500	□	54,399	□	□	□	115,899
Mr. Tishkoff	65,500	□	54,399	□	□	10,000	129,899

- (1) Amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for fiscal 2007 in accordance with Financial Accounting Standards Board Statement No. 123(R) (□FAS 123R□), disregarding any estimate of forfeitures related to service-based vesting conditions, and thus may include amounts from awards granted in and prior to fiscal 2007. The full grant date fair value of the fiscal 2007 stock option award made to each nominee for director, computed in accordance with FAS 123R, was \$120,800. See Note 7 (Share-Based Plans) to the consolidated financial statements and the Critical Accounting Policies and Estimates □ Share-Based Compensation section of Management□s Discussion and Analysis of Financial Condition and Results of Operations (□MD&A□) in our Annual Report on Form 10-K for fiscal 2007 (□Form 10-K□) regarding the assumptions underlying the valuation of equity awards.
- (2) As of February 2, 2008, each director held stock options to purchase the following number of common shares: Mr. Berger: 20,000; Mr. Berman: 27,000; Mr. Kollat: 80,000; Ms. Lauderback: 65,000; Mr. Mallott: 49,500; Mr. Solt: 36,000; Mr. Tener: 30,000; and Mr. Tishkoff: 65,000.
- (3) Amounts in this column reflect payments made by us during fiscal 2007 to charitable organizations nominated by the specified directors pursuant to the Big Lots, Inc. Non-Employee Director Compensation Package.

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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 executive officers named in the Summary Compensation Table, and all our 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 the record date, March 31, 2008.

Amount and Nature of Beneficial	Percent of
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Name of Beneficial Owner or Identity of Group	Ownership (1)(2)	Outstanding Common Shares
Lisa M. Bachmann	142,709	*
Jeffrey P. Berger	4,000	*
Sheldon M. Berman (3)	19,749	*
Joe R. Cooper	110,500	*
Steven S. Fishman	685,550	*
David T. Kollat	67,065	*
Brenda J. Lauderback	43,300	*
Philip E. Mallott	30,500	*
John C. Martin	145,109	*
Russell Solt	16,000	*
James R. Tener	13,000	*
Dennis B. Tishkoff	45,609	*
Brad A. Waite	107,668	*
Barclays Global Investors, NA. (4)	8,992,260	9.95%
Invesco Ltd. (5)	8,689,748	9.61%
State Street Bank and Trust Company (6)	7,761,694	8.59%
BlackRock, Inc. (7)	7,102,321	7.86%
The Bank of New York Mellon Corporation (8)	6,826,839	7.55%
Westport Asset Management, Inc. (9)	5,701,153	6.31%
Sasco Capital, Inc. (10)	5,461,450	6.00%
Putnam, LLC. (11)	5,154,091	5.70%
The Vanguard Group, Inc. (12)	4,563,019	5.05%
All directors and executive officers as a group (21 persons)	1,969,291	2.42%

* 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 the record date under stock options exercisable within that period. The number of common shares that may be acquired within 60 days of the record date under stock options exercisable within that period are as follows: Ms. Bachmann: 105,625; Mr. Berger: 2,000; Mr. Berman: 5,000; Mr. Cooper: 61,625; Mr. Fishman: 237,500; Mr. Kollat: 58,000; Ms. Lauderback: 43,000; Mr. Mallott: 27,500; Mr. Martin: 78,250; Mr. Solt: 14,000; Mr. Tener: 8,000; Mr. Tishkoff: 43,000; Mr. Waite: 66,000; and all directors and executive officers as a group: 1,143,625.

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(2) The amounts reported in the table include the number of phantom common shares held by Ms. Bachmann, Mr. Cooper and Mr. Martin under the Big Lots Supplemental Savings Plan. If the executive officer has elected to make contributions from his or her compensation into an investment in our common shares, we withhold such contributions and credit to an account for the executive phantom common shares in an amount that mirrors the number of common shares that the executive would have acquired had he or she used the contributions to make direct acquisitions of our common shares. The number of common shares held by us in connection with the Big Lots Supplemental Savings Plan is as follows: Ms. Bachmann: 583; Mr. Cooper: 2,095; Mr.

Fishman: 0; Mr. Martin: 892; and Mr. Waite: 0. The named executive officers do not have voting or dispositive power with respect to the common shares that we hold in connection with the Big Lots Supplemental Savings Plan. See the narrative disclosure accompanying the Nonqualified Deferred Compensation table for a discussion of the Big Lots Supplemental Savings Plan.

- (3) Includes 5,468 common shares owned by Xtream Creative, Inc., of which Mr. Berman serves as Chairman, Chief Executive Officer and President.
- (4) In its joint statement on Schedule 13G filed on February 5, 2008, Barclays Global Investors, NA., 45 Fremont Street, San Francisco, CA 94105, stated that it and the other reporting persons named therein collectively beneficially owned the number of common shares reported in the table as of December 31, 2007, had sole voting power over 7,703,701 of the shares, had sole dispositive power over all of the shares, and had no shared voting power or shared dispositive power over the shares. Of the aggregate amounts reported, the following beneficial ownership was reported by the reporting persons named in the Schedule 13G: (i) Barclays Global Investors, NA. stated that it beneficially owned 6,891,960 of the shares, had sole voting power over 5,790,475 of the shares, and had sole dispositive power over 6,891,960 of the shares; (ii) Barclays Global Fund Advisors, 45 Fremont Street, San Francisco, CA 94105, stated that it had sole voting power and sole dispositive power over 838,565 of the shares; (iii) Barclays Global Investors, Ltd, Murray House, 1 Royal Mint Court, London EC3N 4HH, England, stated that it beneficially owned 942,335 of the shares, had sole voting power over 755,261 of the shares, and had sole dispositive power over 942,335 of the shares; (iv) Barclays Global Investors Japan Limited, Ebisu Prime Square Tower, 8th Floor, 1-1-39 Hiroo Shibuya-Ku, Tokyo 150-8402 Japan, stated that it had sole voting and sole dispositive power over 197,488 of the shares; and (v) Barclays Global Investors Canada Limited, Brookfield Place, 161 Bay Street, Suite 2500, PO Box 614, Toronto, Ontario M5J 2S1 Canada, stated that that it had sole voting and sole dispositive power over 121,912 of the shares.
- (5) In its joint statement on Schedule 13G/A filed on February 13, 2008, Invesco Ltd., 1360 Peachtree Street NE, Atlanta, GA 30309, stated that it and the other reporting persons named therein collectively beneficially owned the number of common shares reported in the table as of December 31, 2007, had sole voting power and sole dispositive power over all of the shares, and had no shared voting power or shared dispositive power over the shares. Of the aggregate amounts reported, the following beneficial ownership was reported by the reporting persons named in the Schedule 13G/A: (i) AIM Advisors, Inc. stated that it had sole voting power and sole dispositive power over 59,570 of the shares; (ii) Invesco Asset Management Deutschland GmbH stated that it had sole voting power and sole dispositive power over 426,706 of the shares; (iii) Invesco Asset Management Limited stated that it had sole voting power and sole dispositive power over 1,303,843 of the shares; (iv) Invesco Asset Management (Japan) Limited stated that it had sole voting power and sole dispositive power over 62,129 of the shares; (v) Invesco Asset Management, S.A. stated that it had sole voting power and sole dispositive power over 74,371 of the shares; (vi) Invesco Institutional (N.A.), Inc. stated that it had sole voting power and sole dispositive power over 6,571,982 of the shares; (vii) Invesco Kapitalanlagegesellschaft GmbH stated that it had sole voting power and sole dispositive power over 48,712 of the shares; (viii) Invesco Management S.A. stated that it had sole voting power and sole

dispositive power over 131,617 of the shares; (ix) PowerShares Capital Management LLC stated that it had sole voting power and sole dispositive power over 10,769 of the shares; and (x) PowerShares Capital Management Ireland LTD stated that it had sole voting power and sole dispositive power over 49 of the shares.

- (6) In its Schedule 13G filed on February 12, 2008, State Street Bank and Trust Company, Trustee, 225 Franklin Street, Boston, MA 02110, stated that it beneficially owned the number of common shares reported in the table as of December 31, 2007, had sole voting power and shared dispositive power over all of the shares, and had no shared voting power or sole dispositive power over the shares.

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- (7) In its Schedule 13G/A filed on February 8, 2008, BlackRock, Inc., 40 East 52nd Street, New York, NY 10022, stated that it and its subsidiaries named therein collectively beneficially owned the number of common shares reported in the table as of December 31, 2007, had no sole voting power or sole dispositive power over the shares, and had shared voting power and shared dispositive power over all of the shares. This reporting person reported the aggregate beneficial ownership by it and its subsidiaries, but did not report the individual beneficial ownership of each of the following subsidiaries named in its Schedule 13G/A: BlackRock Advisors LLC; BlackRock Financial Management, Inc.; BlackRock Investment Management LLC; BlackRock (Channel Islands) Ltd; and BlackRock Investment Management UK Ltd.

- (8) In its joint statement on Schedule 13G filed on February 14, 2008, The Bank of New York Mellon Corporation, One Wall Street, 31st Floor, New York, NY 10286, stated that it beneficially owned the number of common shares reported in the table as of December 31, 2007, had sole voting power over 3,068,277 of the shares, had shared voting power over 25,842 of the shares, had sole dispositive power over 6,798,586 of the shares, and had shared dispositive power over 24,145 of the shares. This reporting person reported the aggregate beneficial ownership by it and its subsidiaries, but did not report the individual beneficial ownership of each of the following subsidiaries named in its Schedule 13G: The Bank of New York; Mellon Bank, N.A.; Mellon Private Trust Company, N.A.; Mellon Trust of California; Mellon Trust of New England, N.A.; Mellon Trust of Washington; The Dreyfus Corporation; Franklin Portfolio Associates LLC; Lockwood Capital Management, Inc.; MBSC Securities Corporation; Mellon Capital Management Corporation; Standish Mellon Asset Management Company LLC; The BNY Separate Account Services, Inc.; The Boston Company Holding LLC; MAM (DE) Trust; MAM (MA) Holding Trust; MBC Investments Corporation; and Pershing Group LLC.

- (9) In its Schedule 13G/A filed on February 13, 2008, Westport Asset Management, Inc., 253 Riverside Avenue, Westport, CT 06880, stated that it beneficially owned the number of common shares reported in the table as of December 31, 2007, had sole voting power and sole dispositive power over 1,313,056 of the shares, had shared voting power over 4,227,972 of the shares, and had shared dispositive power over 4,388,097 of the shares. According to the Schedule 13G/A, Westport Asset Management, Inc. owns 50% of Westport Advisors LLC, an investment advisor with whom it shares voting and dispositive power over 4,227,972 of the shares.

- (10) In its Schedule 13G/A filed on February 14, 2008, Sasco Capital, Inc., 10 Sasco Hill Road, Fairfield, CT 06824, stated that it beneficially owned the number of common shares reported in the table as of December 31, 2007, had sole voting power over 2,613,550 of the shares, had sole dispositive power over all of the shares, and had no shared voting power or shared dispositive power over the shares.
- (11) In its joint statement on Schedule 13G/A filed on February 1, 2008, Putnam, LLC. d/b/a Putnam Investments, One Post Office Square, Boston, MA 02109, stated that it and the other reporting persons named therein collectively beneficially owned the number of common shares reported in the table as of December 31, 2007, had no sole voting power or sole dispositive power over the shares, had shared voting power over 343,575 of the shares, and had shared dispositive power over all of the shares. Of the aggregate amounts reported, the following beneficial ownership was reported by the reporting persons named in the Schedule 13G/A: (i) Putnam Investment Management, LLC. stated that it beneficially owned 3,819,592 of the shares, had shared voting power over 4,702 of the shares, and had shared dispositive power over 3,819,592 of the shares; and (ii) The Putnam Advisory Company, LLC. stated that it beneficially owned 1,334,499 of the shares, had shared voting power over 338,873 of the shares, and had shared dispositive power over 1,334,499 of the shares. Putnam Investment Management, LLC. and The Putnam Advisory Company, LLC. are subsidiaries, and share the address, of Putnam, LLC.
- (12) In its Schedule 13G/A filed on February 27, 2008, 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, 2007, had sole voting power over 92,625 of the shares, had sole dispositive power over all of the shares, and had no shared voting power or shared dispositive power over the shares. In its Schedule 13G/A, this reporting person indicated that its subsidiary, Vanguard Fiduciary Trust Company, was the beneficial owner and directs the voting of 36,660 common shares.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the 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 regulations of the SEC to furnish us with copies of all Section 16(a) reports they file. Based solely upon a review of the Section 16(a) reports filed on behalf of these persons 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 2007 with the reporting requirements of Section 16(a) of the Exchange Act.

EXECUTIVE COMPENSATION

Compensation Committee Report

The Compensation Committee has reviewed and discussed the following Compensation Discussion and Analysis (CD&A) with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the CD&A be included in this Proxy Statement and our Form 10-K.

Members of the Compensation Committee

Dennis B. Tishkoff, Chair
Russell Solt
James R. Tener

Compensation Discussion and Analysis

Overview of Our Executive Compensation Program

Philosophy and Objectives

We believe it is important to provide competitive compensation in order to attract and retain talented executives to lead our business. We also believe an executive compensation program should encourage high levels of corporate and individual performance by motivating executives to continually improve our business in order to promote sustained profitability and enhanced shareholder value. This philosophy drives our executive compensation program.

Consistent with our philosophy, each of the named executive officer's total compensation varies based on his or her leadership, performance, experience, responsibilities and the achievement of financial and business goals. To achieve responsiveness between executive compensation and shareholder interests, the value of bonus opportunities and equity awards depends upon our financial performance and the price of our common shares. As a named executive officer's level of responsibility increases, he or she has a more significant amount of compensation at risk through bonus and equity compensation.

The Board and the Compensation Committee of the Board (which we refer to as the "Committee" throughout this CD&A) periodically consider the merits of our philosophy and factors that may influence a change in our philosophy. The Committee has also identified the following key objectives for our executive compensation program:

- *Attract and retain executives by paying them competitive amounts and offering elements of compensation that are consistent with most companies in our peer group.*

We have been able to attract and retain quality executives in recent years by providing candidates and existing executives with competitive compensation packages. We believe a key factor in attracting and retaining qualified executives is to provide total compensation that meets or exceeds the total compensation paid by companies with whom we compete for talent and are similar ("peer group"). In addition, we believe most executives who consider changing employers expect the same types of compensation elements as are provided by our peer group and/or his or her current employer. While we do not generally structure our executive compensation program to be competitive with employers outside of our peer group (though we may do so in order to attract a particular candidate that we believe is well-suited for our business), we do believe it is necessary to offer candidates elements of

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compensation consistent with other companies within our peer group. We believe the amounts and elements of compensation that we offer are comparable with most companies in our peer group. If we fail to offer competitive amounts and elements of compensation to candidates and our executives, we believe our ability to attract and retain a high level of executive talent would be impaired.

Each of the elements of compensation serves a different role in attracting and retaining executives. Salary serves as a short-term retention tool. Bonus under the Big Lots 2006 Bonus Plan ("2006 Bonus Plan") is based on annual corporate financial performance, and is designed primarily to retain executives on a year-to-year basis. Stock options issued under the 2005 Incentive Plan vest over four years in prorated annual increments, and provide executives with an incentive to remain with us through the seven year term of the stock option. Restricted stock, which generally vests only if we meet a threshold corporate financial goal ("first trigger") and then either we meet a higher corporate financial goal ("second trigger") or five years lapse, encourages retention for up to five years, with the period being reduced if we are performing at a high level. While we believe the personal benefits and perquisites offered to

executives are immaterial in amount, we believe that the executives' perceived value of these benefits, and the convenience of having these benefits when faced with the demands of their positions, makes them a meaningful component of our compensation program.

- *Motivate executives to contribute to our success and reward them for their performance.*

We use the bonus and equity components of our executive compensation program as the primary tools to motivate our executives to continually improve our business in order to promote sustainable profitability and enhanced shareholder value. While we work to achieve the corporate financial goals set by our Board each year, we also want to provide meaningful incentives to exceed those goals. We believe creating a culture where our executives are constantly striving to exceed expectations will benefit the strength of our business and, ultimately, our shareholders.

For an executive to earn a bonus under the 2006 Bonus Plan, we must achieve a minimum amount of corporate performance established by the Committee at a time when that amount of performance is substantially uncertain. Though bonuses will be paid for years in which we meet minimum or targeted corporate performance amounts, our executives also have an opportunity to earn up to double the amount of their target bonus compensation if we exceed targeted corporate performance amount. Conversely, if we do not meet the minimum corporate performance amount, executives do not receive a bonus under the 2006 Bonus Plan. We believe this structure is essential to inspire executives to not only meet the goals we set, but to surpass those goals.

Restricted stock granted to executives under the 2005 Incentive Plan is a full value award. Accordingly, we believe it is appropriate to require that at least a threshold corporate financial goal (i.e., the first trigger) be met before restricted stock issued under the 2005 Incentive Plan may vest. We believe this has the effect of encouraging positive performance, while protecting our other shareholders from being diluted in the absence of our performance. As discussed above, restricted stock awarded to our executives vests on an accelerated basis if we achieve the second trigger. The second trigger is established when the award is made, and is typically based on a projected multi-year operating plan. Consequently, while the restricted stock awarded to our executives may vest after several years if we repeatedly perform in line with our goals, our executives have an incentive to meet or exceed those goals at a faster rate in order to accelerate the vesting of their restricted stock.

- *Align executive compensation with shareholder interests.*

We pay bonuses to executives under the 2006 Bonus Plan only if we meet or exceed corporate performance objectives. Stock options awarded under the 2005 Incentive Plan are valuable only if the market price of our common shares increases over the exercise price during the period in which the stock options may be exercised. Restricted stock awarded under the 2005 Incentive Plan vests only if we achieve a threshold corporate performance goal (i.e., the first trigger), and the value is determined by the market price of our common shares. The realization and value of each of these elements of compensation is dependent upon our performance, appreciation in shareholder value, or both.

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As evidenced by the fact that 78.2% and 67.2% of the total compensation earned by the named executive officers in fiscal 2007 and fiscal 2006, respectively, was derived from bonuses, stock options and restricted stock, we believe the compensation program for our executives is closely aligned with the interests of our shareholders. Additionally, as an executive's level of responsibility increases, so too does the percentage of his or her total compensation that is at risk through these forms of incentive compensation. Relative to the executive's total compensation in fiscal 2007, Mr. Fishman's percentage at risk was 86.6%, while the average of the other named executives officers was 67.1%. In fiscal 2006, Mr. Fishman's percentage at risk was 75.6%, while the average of the other named executives officers was 59.3%. See the Summary Compensation Table following this CD&A for the amounts earned by the named executive officers in fiscal 2007 and fiscal 2006.

- *Manage executive compensation costs.*

As we discuss in greater detail in the "Comparative Compensation Data" section of this CD&A, we compare the compensation paid to our executives with the compensation paid to similarly-situated executives at companies within our peer group. While this comparison is not a determinative factor for setting compensation for our executives, we believe our review of the peer group data supports our belief that we do not overpay our executives and we are effective at managing our executive compensation costs.

- *Focus on corporate governance.*

Although the compensation committee at some companies makes all compensation decisions with respect to their executives, we believe it is consistent with best practices in corporate governance to reach a consensus among all outside directors when setting executive compensation each year. While the Committee takes the lead in formulating executive compensation, we believe seeking the approval of our five additional outside directors before finalizing annual executive compensation provides an additional check on the appropriateness of the amounts awarded.

Elements of In-Service Executive Compensation

The primary compensation components for the named executive officers during their respective terms of employment consist of salary, bonus opportunities under the 2006 Bonus Plan, and equity awards made under the 2005 Incentive Plan. In addition, the named executive officers are entitled to certain personal benefits and perquisites. We believe each of these elements and the mix of elements is necessary to provide a competitive executive compensation program, and is consistent with our compensation philosophy and furthers our compensation objectives.

The Committee reviews each element at least annually. Individual and corporate performance directly impacts the elements and amount of compensation paid to our named executive officers. For instance, a named executive officer's failure to meet individual goals may lead to a reduction in his or her compensation, a failure to receive equity awards, or the termination of his or her employment. Conversely, excellent corporate performance may lead to greater bonus payouts and, possibly, to the achievement of financial goals that accelerate restricted stock vesting. The Committee and the other outside directors also have discretion, subject to the limitations contained in our bonus and equity plans and the executives' employment agreements, in setting named executive officers' salary, bonus opportunities and equity awards.

- *Salary*

Salary is cash compensation and is established annually for each named executive officer. A minimum salary for each named executive officer is set forth in his or her respective employment agreement, as described below.

- *Bonus*

Each named executive officer has the opportunity to earn an annual cash bonus under the 2006 Bonus Plan. Bonus payouts correspond to a percentage of each named executive officer's salary ("payout percentage") and are based on whether we achieve certain corporate performance amounts under one or more financial measures. The corporate performance amounts and financial measures are set annually

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at the discretion of the Committee and the other outside directors in connection with the Board's approval of our annual corporate operating plan, subject to the terms of the 2006 Bonus Plan and the named executive officers' employment agreements.

The lowest level at which we will pay a bonus under the 2006 Bonus Plan is referred to as the "floor." The level at which we target our performance and the payout under the 2006 Bonus Plan is referred to as the "target." The maximum level at which we will pay a bonus under the 2006 Bonus Plan is referred to as the "stretch." If our performance in a fiscal year exceeds the minimum corporate performance amount that earns a floor bonus, there is a corresponding increase in the amount of the bonus (up to a maximum at the stretch bonus level). However, a bonus is not paid under the 2006 Bonus Plan if we do not achieve at least the minimum corporate performance amount. Bonuses paid to the named executive officers under

the 2006 Bonus Plan are considered [Non-Equity Incentive Plan Compensation] in the Summary Compensation Table. See the [Bonus and Equity Plans] disclosure that follows the Summary Compensation Table for more information concerning the 2006 Bonus Plan.

- *Equity*

All equity awards granted to the named executive officers since January 1, 2006 have been issued under the 2005 Incentive Plan. Although the 2005 Incentive Plan allows various types of equity awards to be issued, we have granted only stock options and restricted stock under the 2005 Incentive Plan. The stock options vest based on the passage of time. The restricted stock vests based on the achievement of the first trigger and then the achievement of the second trigger, the passage of time, or the executive's death or disability. See the [Bonus and Equity Plans] disclosure that follows the Summary Compensation Table for more information concerning the 2005 Incentive Plan and the terms under which we have made equity awards.

- *Personal Benefits/Perquisites*

While it is possible that other personal benefits and perquisites may be offered to named executive officers during the course of the year, the following are the personal benefits and perquisites that are generally provided only to employees at or above the vice president level: (i) coverage under the Big Lots Executive Benefit Plan ([Executive Benefit Plan]); (ii) enhanced long-term disability insurance coverage; and (iii) use of an automobile or payment of an automobile allowance. We believe that these personal benefits and perquisites, though immaterial to us in amount, are an important element of total compensation provided to our executives because of the value our executives place on these benefits and the convenience of having these benefits when faced with the demands of their positions. The Committee evaluates and determines the personal benefits and perquisites received by named executive officers during its annual review of the named executive officers' total compensation.

We offer most full-time employees medical and dental benefits under the Big Lots Associate Benefit Plan ([Benefit Plan]). We also offer the named executive officers the opportunity to participate in the Executive Benefit Plan, which reimburses executives for health-related costs incurred but not covered under the 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 also offer short-term disability coverage to most employees and long-term disability coverage to all salaried employees. For the named executive officers, the benefits provided under the long-term disability plan are greater than for employees below the level of vice president. Under the 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 age 65, whichever occurs earlier. We also pay the premiums for this long-term disability coverage and the amount necessary to hold the named executive officer harmless from the income taxes resulting from such premium payments.

All employees at or above the level of vice president have the option of the use of an automobile or accepting a monthly allowance. The value of the automobile and the amount of the allowance varies based on the employee's level.

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Employment Agreements

Each named executive officer is party to an employment agreement with us. The terms of the employment agreements are substantially similar and are described collectively herein except where their terms materially differ.

We entered into the employment agreements because the agreements, in exchange for minimum salary levels and target and stretch bonus payout percentages, potential severance and change in control payments and other

consideration, provide us with several protections, including non-competition, confidentiality, non-solicitation and continuing cooperation provisions, as discussed below. Further, we believe it is in our best interests and the best interests of our shareholders to enter into these employment agreements to assure the undivided loyalty and dedication of the named executive officers.

Each employment agreement, including the minimum salary levels and target and stretch bonus payout percentages set forth therein, was negotiated with the executive. In those negotiations, we considered many factors, including:

- our need for the executive;
- the skills and past and anticipated future performance of the executive;
- the degree to which we believe the executive will be able to help improve our business;
- the compensation being paid to similarly-situated executives at peer group companies;
- to the extent applicable, the other elements of compensation being offered to the executive and the amount of compensation being paid to the executive by another employer;
- the relationship between the compensation being offered to the executive and that being paid to the other EMC members; and
- our perception of our bargaining power and the executive's bargaining power.

Under the terms of their employment agreements, the named executive officers are each entitled to receive at least the following salaries, which amounts are not subject to automatic increases: Mr. Fishman: \$960,000; Mr. Cooper: \$350,000; Mr. Waite: \$405,000; Mr. Martin: \$450,000; and Ms. Bachmann: \$325,000. The terms of each named executive officer's employment agreement establishes the smallest payout percentages that may be set annually for his or her target and stretch bonus levels. The payout percentages set by the employment agreements for target bonus and stretch bonus, respectively, are as follows (expressed as a percentage of the executive's salary): Mr. Fishman: 100% and 200%; Mr. Cooper: 50% and 100%; Mr. Waite: 60% and 120%; Mr. Martin: 60% and 120%; and Ms. Bachmann: 50% and 100%.

Upon entry into the employment agreements, these salaries and payout percentages were commensurate with each named executive officer's job responsibilities, overall individual performance, experience, qualifications, and salaries and payout percentages provided to similarly-situated executives at peer group companies. Because the various factors considered when evaluating each named executive officer's salary and bonus opportunity change, the Committee reviews the salaries and payout percentages annually and adjustments are made if warranted. See the "Salary for Fiscal 2007" and "Bonus for Fiscal 2007" sections of this CD&A for a discussion of the salaries and payout percentages for the named executive officers for fiscal 2007.

Each employment agreement requires the named executive officer to devote his or her full business time to our affairs and prohibits the named executive officer from competing with us during his or her employment. Mr. Fishman's employment agreement includes several restrictive covenants that survive the termination of his employment, including confidentiality (infinite), non-solicitation (two years), non-competition (one year, but reduced to six months following a change in control), continuing cooperation (three years), and non-disparagement (infinite). Mr. Cooper's employment agreement includes several restrictive covenants and agreements that survive the termination of his employment, including confidentiality (infinite), non-solicitation of employees and vendors (two years), non-competition (one year, but reduced to six months following a change in control), continuing cooperation (infinite), and non-disparagement (infinite). The employment agreements with Mr. Waite, Mr. Martin and Ms. Bachmann include several restrictive covenants and agreements that survive the termination of his or her employment, including non-competition (one year), confidentiality (two years) and non-solicitation (two years).

Unless the executive and we mutually agree to amend or terminate his or her employment agreement, its terms will remain unchanged and it will remain effective as long as we employ the executive. The consequences of termination of the employment agreement depend on the circumstances of termination.

Post-Termination and Change in Control Arrangements

The employment agreements with the named executive officers provide for potential severance and change in control payments and other consideration. The terms of these employment agreements were set through negotiation, during which we considered the various factors discussed in the prior section. Our equity compensation plans also provide for the accelerated vesting of outstanding stock options and restricted stock in connection with a change in control.

The severance provisions of the employment agreements are intended to address competitive concerns by providing the executives with compensation that may alleviate the uncertainty of leaving another employer or foregoing other opportunities. The change in control provisions of the employment agreements dictate that the executive receives certain cash payments and other benefits only if there is a change in control and the executive is terminated in connection with the change in control. This "double trigger" is intended to allow us to rely upon the named executive officers' continued employment and objective advice, without concern that a named executive officer might be distracted by the personal uncertainties and risks created by an actual or proposed change in control. These potential benefits provide our named executive officers with important protections that we believe are necessary to attract and retain executive talent.

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 or bonus level or awarding equity compensation. We believe that the objectives of attracting and retaining qualified executives and providing incentives for executives to continue their employment with us would not be adequately served if potential payments to a named executive officer upon termination or change in control were a determinative factor in awarding current compensation.

See the "Potential Payments Upon Termination or Change in Control" narrative disclosure and tables following this CD&A for a discussion of compensation that may be paid to the named executive officers in connection with a change in control or the termination of their employment with us.

Retirement Plans

We maintain four retirement plans: (i) a tax-qualified, funded noncontributory defined benefit pension plan ("Pension Plan"); (ii) a non-qualified, unfunded supplemental defined benefit pension plan ("Supplemental Pension Plan"); (iii) a tax-qualified defined contribution plan ("Savings Plan"); and (iv) a non-qualified supplemental defined contribution plan ("Supplemental Savings Plan"). We believe that the Savings Plan and Supplemental Savings Plan are generally commensurate with the retirement plans provided by our competitors and others in our compensation peer group, and that providing these plans allows us to better attract and retain quality executive talent. Participation in the Pension Plan and Supplemental Pension Plan, which we do not believe are material elements of our executive compensation program, is limited to certain employees whose hire date precedes April 1, 1994. See the narrative disclosure accompanying the Pension Benefits and Nonqualified Deferred Compensation tables following this CD&A for a discussion of our retirement plans.

Review of Effectiveness

Annually, the Committee reviews whether our executive compensation program remains effective at satisfying our philosophy and objectives. The Committee reviews the total compensation earned by each EMC member. Total compensation is evaluated in light of numerous objective and subjective factors, including our past and projected future performance, the past and projected future performance of areas of the business for which the executive is responsible, comparative compensation data, and the relationship between total compensation and shareholder return. The Committee also reviews the types of equity awards that we have made historically (i.e., stock options and restricted stock), the trends in equity compensation among our peer group, and the impact that any changes in laws and/or accounting standards may have on our equity awards in determining whether to make adjustments in our executive compensation program.

The Committee takes the lead in establishing executive compensation annually, but seeks approval of compensation decisions from the other outside directors. The Committee believes having all outside directors approve executive compensation is consistent with best practices in corporate governance. The Committee also requests performance evaluations and recommendations on compensation from our CEO, because of his direct knowledge of each other executive's performance and contributions. Additionally, the Committee consults with management and independent compensation consultants to take advantage of their specialized expertise.

The process of evaluating our executives begins at our Board meeting in the second quarter of the fiscal year before compensation adjustments will be made (e.g., in May 2006 for adjustments effective in fiscal 2007) and continues quarterly with updates that our CEO delivers to the outside directors to keep them apprised of the performance of each other EMC member. At our Committee and Board meetings in the first quarter of the fiscal year for which compensation is being set (e.g., in March 2007 for fiscal 2007 compensation), our CEO provides the Committee and the other outside directors with a thorough performance evaluation of each other EMC member and presents his recommendations for their compensation. The Committee also conducts periodic executive sessions to discuss our CEO's performance, with the most detailed evaluation including all outside directors during our first quarter Board meeting.

At its March 2007 meeting, the Committee:

- discussed the continued appropriateness of our executive compensation program, including the underlying philosophy, objectives and policies;
- discussed our CEO's performance, contributions and value to our business;
- considered our CEO's performance evaluations and compensation recommendations for the other EMC members;
- reviewed the comparative compensation data that it received through surveys conducted by its independent compensation consultants;
- analyzed the total compensation earned by each EMC member during the immediately preceding two fiscal years;
- analyzed the potential payments to each EMC member upon termination of employment and change in control events;
- considered the parameters on executive compensation awards established by the terms of the shareholder-approved plans under which bonus and equity compensation may be awarded and existing employment agreements that we have with EMC members;
- prepared its recommendation on the compensation of each EMC member for fiscal 2007;
- determined that a bonus was payable under the 2006 Bonus Plan as a result of corporate performance in fiscal 2006; and
- determined that the first trigger and second trigger for the fiscal 2006 restricted stock awards were each achieved as a result of corporate performance in fiscal 2006.

The Committee then shared its recommendations on EMC members' compensation, including the underlying data and analysis, with the other outside directors for their consideration and approval. At the March 2007 Board meeting, the outside directors discussed with the Committee the form and amount of, and rationale for, the recommended compensation and finalized the compensation awards for the EMC members.

Except where we discuss the specifics of a named executive officer's fiscal 2007 compensation, the evaluation and establishment of the named executive officers' fiscal 2007 compensation was substantially similar. Based on their review of each component of executive compensation separately, and in the aggregate, the Committee and the other outside directors determined that the named executive officers' total compensation for fiscal 2007 was reasonable and not excessive and consistent with our executive compensation philosophy and objectives.

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Salary for Fiscal 2007

The salaries paid to the named executive officers for fiscal 2007 are shown in the "Salary" column of the Summary Compensation Table. Annual increases were made in the discretion of the Committee and the other outside directors. Salary adjustments for the named executive officers were generally based upon the factors discussed in this CD&A, with an emphasis on individual and corporate performance and the competitive market. However, salary adjustments were subjectively determined and were not formally tied to specific performance criteria. The Committee has chosen not to adopt any specific schedule of salary increases, and made adjustments to the named

executive officers' respective salaries without regard to adjustments in the salaries of other executives. At its annual review in March 2007, the Committee and the outside directors approved the following fiscal 2007 salaries for the named executive officers: Mr. Fishman: \$1,025,000; Mr. Cooper: \$400,000; Mr. Waite: \$535,000; Mr. Martin: \$500,000; and Ms. Bachmann: \$415,000. These increases reflected strong corporate and individual performance in fiscal 2006.

Bonus for Fiscal 2007

The bonuses paid to the named executive officers for fiscal 2007 are shown in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table. To formulate bonus compensation for the EMC members, the Committee and the other outside directors considered the same information used to set salary and the annual corporate operating plan set by the Board. In March 2007, when the Committee and the other outside directors approved the financial measures and corporate performance amounts applicable to the target and stretch bonus opportunities awarded under the 2006 Bonus Plan, we believed those measures represented strong, but reasonable, levels of performance that would be a challenge to achieve. However, our fiscal 2007 performance exceeded the targeted expectations of the Board, the Committee and management, thus a bonus was earned between the target and stretch levels. The primary aim in setting the goals was to reward 2006 Bonus Plan participants while encouraging strong corporate earnings growth.

The specific financial measures selected by the Committee and the other outside directors for fiscal 2007 bonus determinations were the greatest of: (i) income from continuing operations; (ii) income from continuing operations before extraordinary item and/or cumulative effect of a change in accounting principle (as the case may be); (iii) income before extraordinary item(s); and (iv) net income. Each such measure is adjusted to remove the effect of all equitable adjustments for the unusual or non-recurring events, transactions or accrual items set forth in the 2006 Bonus Plan, and may be further reduced in the Committee's discretion. These financial measures were selected because the Committee and the other outside directors believe they provide a good indication of our profitability, ongoing operating results and financial condition. Of these financial measures, net income was the greatest for fiscal 2007.

The outside directors typically establish corporate performance amounts that are slightly below (for the floor bonus), at or near (for the target bonus), and above (for the stretch bonus) our annual corporate operating plan. Because the outside directors consider the specific circumstances that we expect to face in the coming fiscal year (e.g., year-over-year comparable performance, general economic factors, and performance of the retail sector), the relationship between the corporate performance amounts and our annual corporate operating plan may vary significantly from year to year. The corporate performance amounts set for fiscal 2007 bonuses represent an increase of approximately 192% to 305% over the amounts set for fiscal 2006. We believe this large increase is appropriate in light of our high levels of performance in fiscal 2006, during which we exceeded our stretch bonus corporate performance amount, and our objective to promote sustained profitability while providing objectives that motivate our executives.

The following table reflects the payout percentage for each bonus level and the corporate performance amount required to achieve the corresponding bonus level, with the results for fiscal 2007 noted:

Bonus Level and	Payout Percentage (% of salary)					Corporate Performance Amount
	Mr. Fishman	Mr. Cooper	Mr. Waite	Mr. Martin	Ms. Bachmann	(\$)
2007 Results						
No Bonus	0.0	0.0	0.0	0.0	0.0	0 □ 117,942,999
Floor	50.0	25.0	37.5	30.0	25.0	117,943,000
Target	100.0	50.0	75.0	60.0	50.0	128,814,000
Stretch	200.0	100.0	150.0	120.0	100.0	155,195,000
2007 Results	176.7	88.3	132.5	106.0	88.3	149,038,050

As a consequence of the fiscal 2007 bonus payments, total cash compensation paid to the named executive officers for fiscal 2007 was at or above the median for our peer group. We believe higher than market average total cash compensation is appropriate in light of our fiscal 2007 performance and furthers our objectives to

motivate our executives and reward superior performance.

Equity for Fiscal 2007

The equity awarded to the named executive officers in fiscal 2007 is reflected in the Grants of Plan-Based Awards table. To determine the size of the equity awards for EMC members, the Committee first considered corporate performance to establish the total pool of common shares that would be made available for equity awards to all EMC members collectively. Then, individual performance, the responsibilities of the executive and the comparative compensation data were considered to determine the percentage of the total pool to be granted to each EMC member. This process is intended to ensure that executive equity compensation is commensurate with corporate and individual performance and consistent with our policy that incentive compensation should increase as a percentage of total compensation as the executive's level of responsibility increases.

The fiscal 2007 equity compensation for the named executive officers consisted of non-qualified stock options and restricted stock awards under the 2005 Incentive Plan. The Committee believes that the grant of a significant quantity of stock options and restricted stock to the named executive officers further aligns their interests with the interests of our shareholders and provides us with a significant retention and motivation tool. Consequently, the named executive officers' equity interests in our organization, through stock options and restricted stock, comprise a substantial portion of their compensation and help to align their personal rewards and motivation with our performance and shareholder value.

The stock options awarded to the named executive officers in fiscal 2007 have an exercise price equal to the fair market value of our common shares on the grant date, vest equally over four years, and expire seven years after the grant date. The allocation of stock options to restricted stock was two-to-one for Mr. Fishman and three-to-one for the other named executive officers. The Committee and other outside directors believe this difference is necessary to provide Mr. Fishman with equity compensation that is competitive with the equity compensation awards made to chief executive officers by peer group companies and to further our practice of increasing the percentage of compensation at risk as an executive's level of responsibility increases.

The financial measure applied to the restricted stock awards made in fiscal 2007 was the greater of income per common share \square diluted from continuing operations and income per common share \square diluted from continuing operations before extraordinary item and/or cumulative effect of a change in accounting principle (as the case may be). If neither of these amounts appear on the consolidated statements of operations included in our Form 10-K for the applicable fiscal year, then the financial measure to be used is the greater of income per common share \square diluted before extraordinary item and/or cumulative effect of a change in accounting principle (as the case may be) and income per common share \square diluted as it appears in the Form 10-K for the applicable fiscal year. Each financial measure is adjusted to remove the effect of any gain or loss as a result of litigation or lawsuit settlement that is specifically disclosed, reported or otherwise appears in our periodic filings with the SEC or our annual report to shareholders. These financial measures were selected because the Committee and the other outside directors believe they provide a good indication of our profitability, ongoing operating results and financial condition.

The first trigger selected for the fiscal 2007 restricted stock awards is \$0.25 under the applicable financial measure. Upon attaining the first trigger, the award is eligible to vest under one of three scenarios \square the attainment of the second trigger, the lapsing of five years while remaining continuously employed, or the grantee's death or disability (in which case 20% of the award vests for each consecutive year of employment completed from the grant date to the date of death or disability). The second trigger selected for the fiscal 2007 restricted stock awards is \$1.65 under the applicable financial measure. When the Committee and the other outside directors approved the financial measures and corporate performance amounts applicable to the second trigger in March 2007, we believed those measures represented strong, but reasonable, levels of performance that would be a challenge to achieve. The second trigger for restricted stock awarded in fiscal 2007 was approximately 190% greater than the second trigger for restricted stock awarded in fiscal 2006. We believe this large increase is appropriate in light of our high levels of performance in fiscal 2006, during which we exceeded the second trigger for the restricted stock awarded to executives in February 2006, and our objectives to motivate our executives, reward superior performance and align the interests of our executives and shareholders. While the first trigger was met for the fiscal 2007 restricted stock awards, the second trigger was not.

The CEO, the Committee and the outside directors do not rely solely on predetermined formulas when they evaluate the performance of our executives. The individual performance of the executives is generally measured against the following objective and subjective factors, although the factors considered may vary for each executive and as dictated by business conditions:

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

Our CEO, the Committee and the outside directors may each consider different factors and may value the same factors differently. In selecting individual and corporate performance factors for each EMC member and measuring an executive's performance against those factors, our CEO, the Committee and the other outside directors also consider the performance of our competitors and general economic and market conditions. None of the factors are assigned a specific weight. Instead, our CEO, the Committee and the other outside directors recognize that the relative importance of these factors may change in order to adapt our operations to specific business challenges and to reflect the changing economic and marketplace conditions. So although the Committee and the other outside directors consider our CEO's recommendations, the Committee and the outside directors may not follow, and are not bound by, our CEO's recommendations on executive compensation.

Impact of Performance on Compensation

As illustrated by our executive compensation philosophy and objectives, we are committed to tying corporate performance to a substantial portion of our executive compensation program. While we cannot control the market price of our common shares, we strive to provide strong results that may lead to increased shareholder value. Additionally, the Committee believes it is in our best interests and the best interests of our shareholders to require that we achieve certain corporate performance metrics in order for EMC members to receive bonus and restricted stock awards so that we can preserve the deductibility of such awards under Section 162(m) of the Internal Revenue Code, as amended (IRC). As is illustrated by the performance metrics and goals described above, we believe that performance and compensation are tightly tied.

Role of Management

Our CEO's role in determining executive compensation is significant and it is discussed throughout this CD&A. Additionally, our CEO and the Committee consult with management from our human resources, finance and legal departments regarding the design and administration of our compensation programs, plans and awards for executives and directors. These members of management provide advice regarding the competitive nature of existing and proposed compensation programs and the impact of accounting rules, laws and regulations on existing and proposed compensation programs. Management from our human resources, finance and legal departments may also act pursuant to delegated authority to fulfill various functions in administering our employee benefit and compensation plans. Such delegation is permitted by the Committee's charter and each such plan. Those groups to whom the Committee has delegated certain responsibilities are each required to periodically report their activities to the Committee.

Our CEO and some of these members of management attend general meetings of the Committee, and the CEO participates in the Committee's discussions regarding the compensation of the other EMC members. However, these individuals do not participate in executive sessions of the Committee or when executive compensation determinations are made by the Committee and the other outside directors.

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Independent Compensation Consultant

Pursuant to the authority granted to the Committee by its charter, the Committee retains independent compensation consultants and subscribes to executive compensation surveys as it deems necessary. The surveys

are also shared with our human resources department. In establishing executive compensation for fiscal 2007, the Committee did not retain a compensation consultant for specialized advice, but did subscribe to multiple compensation surveys. As discussed below, the Committee engaged Watson Wyatt Worldwide (Watson Wyatt) in May 2007 to provide information and services that first impacted our executive compensation program in fiscal 2008. Aside from completing work at the direction of the Committee, Watson Wyatt did not provide any other services for us during fiscal 2007.

Comparative Compensation Data

One tool that the Committee uses to make executive compensation decisions is data regarding the compensation paid to executives at peer group companies. For fiscal 2007, the Committee obtained from independent compensation consultants executive compensation surveys of selected Standard & Poor's Retail Stores Index companies and other companies with whom we compete for talent and whose revenues or operations are similar to ours. The peer group varies from year to year based on the Committee's assessment of which companies compete with us for talent and are similar to us in terms of industry or revenues and which companies participate in the compensation surveys that we receive from independent compensation consultants.

The Committee and our human resources department reviewed each EMC member's responsibilities and mapped, where possible, the compensation of each executive to data that represents the compensation awarded to similarly-situated executives at peer group companies. The Committee compared the total direct compensation levels for our EMC members to the total direct compensation of similarly situated executives within the peer group. For purposes of this evaluation, total direct compensation is comprised of salary, bonus at the targeted level and equity awards.

While we often award total direct compensation in the range of the 50th to 75th percentile of total direct compensation paid by the peer group, this range is not the sole determinative factor for setting our executives' compensation. Rather, we believe that the application of this range provides a point of reference for measurement while retaining the flexibility necessary to make adjustments for performance and experience, to attract, retain and motivate top talent, and to reward executives who we believe excel or take on greater responsibility than executives at peer group companies.

For purposes of evaluating executive compensation for fiscal 2007, the peer group was comprised of the following 94 companies which responded to one of several compensation surveys that we obtained from Mercer Human Resource Consulting, Towers Perrin, and Hewitt Associates:

7-Eleven	CVS Pharmacy	Limited Brands	Roundy's Supermarkets
A&P Supermarkets	Darden Restaurants	Linens 'N Things	RSC Equipment Rental
Adidas America	Denny's	Liz Claiborne	Safeway
Advance Auto Parts	Dick's Sporting Goods	Longs Drug Stores	Sara Lee
Albertsons	Dollar General	Lowe's	Sears
Amazon.com	Eddie Bauer	McDonald's	Sports Authority
Ann Taylor	Federated Department Stores	Mervyn's	Staples
Applebee's	FedEx Kinko's	Neiman Marcus	Stein Mart
AutoZone	Fingerhut	Nordstrom	Sur La Table
Belk	Foot Locker	O'Charley's	Talbots
Best Buy	Gap	Office Depot	Target
BJ's Wholesale Club	Goody's Family Clothing	Oriental Trading	Timberland
Blockbuster	Hannaford	Pacific Sunwear	TJX Companies
Bob Evans Farms	Harry Winston	Papa John's	Toys 'R' Us
Bob-Ton	Home Decorators Collection	Payless Shoes	True Value Hardware
Brown Shoe	Home Depot	Petco	United Rentals
CDW	Home Interiors and Gifts	PetsMart	United Stationers
Chanel	Hy-Vee	Phillips-Van Heusen	Walgreen
Charming Shoppes	J. Crew	Pier 1 Imports	Warnaco

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Circle K	J.C. Penney	Polo Ralph Lauren	Whole Foods
Circuit City	Kohl's	Radio Shack	Williams-Sonoma
Coach	L.L. Bean	Raley's Superstores	Yum! Brands
Columbia Sportswear	Levi Strauss	Redcats USA	
Crosstown Traders	Lillian Vernon	Ross Stores	

Tally Sheets and Wealth Accumulation

The Committee reviewed tally sheets that set forth the total compensation awarded to each EMC member for the immediately preceding two fiscal years, as well as estimated post-employment and change in control compensation that may be payable to such executives. The purpose of the tally sheets is to consolidate all elements of actual and projected compensation for our executives, so the Committee may analyze the individual elements of compensation, the mix of compensation, and the total amount of actual and projected compensation. With this information, the Committee determined that the compensation awarded to our executives is reasonable and consistent with our executive compensation philosophy and objectives.

These tally sheets also included an estimate of the amount of total value accumulated, and total value that will be accumulated, by each EMC member through prior equity awards (assuming employment continues, awards vest and the market price of our common shares fluctuates through the life of the awards). While the Committee considered the accumulated total value as a factor in setting fiscal 2007 compensation, this information was not a primary consideration. The Committee believes that its objectives of motivating executives to achieve short-term and long-term goals, rewarding executives for achieving those goals, and providing incentives for executives to continue their employment with us would not be adequately served if the accumulated total value of an EMC member's equity awards was a determinative factor in awarding future compensation.

Internal Pay Equity

In the process of reviewing each component of executive compensation separately and in the aggregate, the Committee directed our human resources department to prepare an internal pay equity analysis comparing the relative compensation between the CEO and the other EMC members. This analysis was considered to ensure that our executive compensation program is internally consistent and equitable, both of which we believe promote executive retention and motivation. The comparison included all components of compensation. Prior to hiring

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Mr. Fishman in 2005, the relative difference between the compensation of our CEO and the compensation of our other named executive officers had not increased significantly over the years. While Mr. Fishman's compensation package increased the relative difference between the compensation of our CEO and our other named executive officers, the Committee believes that the increased disparity is appropriate and was and remains necessary to attract, retain and motivate a chief executive with Mr. Fishman's experience. No significant change in our internal pay equity occurred in fiscal 2007.

Equity Grant Timing

Pursuant to the terms of the 2005 Incentive Plan, 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. In fiscal 2007, the outside directors, after consultation with the Committee, specified that the grant date of the equity awards made in connection with the annual performance reviews of the EMC members was the second trading day following our release of results from the 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 even the appearance that the Board, the Committee or any employee manipulated the terms of the equity awards. For equity awards made throughout the fiscal year, generally as a result of a hiring or promotion, the grant date is the date of the related event (i.e., the first day of employment or effective date of promotion). We have no policy of timing the grant date of these mid-year equity awards to coordinate 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

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 (Section 162(m)). 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 limits the tax deductions for compensation expense in excess of \$1 million paid to our CEO and our three other highest compensated executives (excluding the principal financial officer). Compensation in excess of \$1 million may be deducted if it is performance-based compensation within the meaning of Section 162(m). We believe that compensation paid under our equity and bonus compensation plans is generally fully deductible for federal income tax purposes. However, in certain situations, the Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation for our executives. When considering whether to award compensation that will not be deductible, the Committee compares the cost of the lost deduction against the competitive market for executive talent and our need to attract, retain and motivate the executive, as applicable.

For fiscal 2007, the Committee believes it has taken the necessary actions to preserve the deductibility of all payments made under our executive compensation program, with the exception of a portion of the compensation paid to Mr. Fishman. If the IRC or the related regulations change, the Committee intends to take reasonable steps to ensure the continued availability of deductions for payments under our executive compensation program, while at the same time considering our executive compensation philosophy and objectives and the competitive market for executive talent.

Our Executive Compensation Program for Fiscal 2008

Review of Our Executive Compensation Program

The Committee engaged Watson Wyatt in May 2007 to provide research, comparative compensation data and executive compensation program design expertise. Throughout this engagement, Watson Wyatt has been advising the Committee on all principal aspects of executive compensation, including the competitiveness of program design and awarded values. Changes to our executive compensation program based on the work of Watson Wyatt are first being introduced in fiscal 2008. The primary objectives of this engagement are:

- validating or recommending changes to our executive compensation program;
- obtaining better comparative compensation data by creating a new peer group of companies that are more similarly situated to us;

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- comparing the amount and form of executive compensation, including equity compensation, paid to our executives against the compensation paid to similarly-situated executives at companies within the new peer group;
- comparing the amount of compensation paid to our outside directors against the amounts paid to non-employee directors at companies within the new peer group; and
- considering minimum share ownership requirements for executives and outside directors.

After several meetings with Watson Wyatt, we have created a new peer group that is limited to retailers that we believe are more similarly situated to us. When considering the composition of the new peer group, the Committee selected a group of companies that produce median and average financial measures similar to ours. Among the financial measures considered were revenues, market capitalization, cash flows from operations, total assets, net income, earnings per share growth, price-to-earnings ratio, and shareholder return. The following 16 companies comprise the new peer group used to evaluate executive compensation for fiscal 2008:

99 Cents Only Stores	Dick's Sporting Goods	Family Dollar	Pier 1 Imports
Abercrombie & Fitch	Dollar General	Fred's	Radio Shack

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Bed Bath & Beyond	Dollar Tree	Jo-Ann Stores	Ross Stores
BJ's Wholesale Club	DSW	Limited Brands	Stein Mart

Based, in part, on a review of comparative compensation data from the new peer group and the recommendations offered by Watson Wyatt, we made changes in the amount of salary awarded for fiscal 2008 and implemented the new share ownership requirements discussed below. Comparative compensation data is not the sole factor in determining executive compensation amounts, and the Committee continues to consider many other factors. While no changes in our equity compensation practices have been made for fiscal 2008 (aside from the new share ownership requirements), the Committee continues to evaluate Watson Wyatt's recommendations related to equity compensation. As a result, executive compensation for fiscal 2008 blends updated salary amounts with an approach to bonus and equity compensation that is consistent with our recent past practices.

Committee and Board Activity in Fiscal 2008

At its meeting in March 2008, the Committee: (i) certified that a bonus was payable for fiscal 2007 under the 2006 Bonus Plan; (ii) reviewed the tally sheets and compensation history for all EMC members; (iii) reviewed an internal pay equity analysis and comparative compensation data from our new peer group; and (iv) formulated its recommendations to the other outside directors for fiscal 2008 executive compensation. The Committee also reviewed drafts of this CD&A and the other compensation disclosures required by the SEC. At the subsequent Board meeting, the Committee recommended, and the outside directors approved, the following fiscal 2008 salaries and equity awards for the named executive officers (with the bonus payout percentages remaining the same as fiscal 2007 for Mr. Fishman, Mr. Waite and Mr. Martin, and being increased by approximately 17% over fiscal 2007 for Mr. Cooper and Ms Bachmann):

Fiscal 2008 Salary	Common Shares Underlying	Common Shares Underlying
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