

BIG LOTS INC
Form DEF 14A
April 21, 2005

**UNITED STATES
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**Proxy Statement Pursuant to Section 14(a) of the Securities
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Check the appropriate box:

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

BIG LOTS, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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4. Date Filed:

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

April 21, 2005

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Big Lots, Inc., which will be held at the Company's corporate office located at 300 Phillipi Road, Columbus, Ohio, on Tuesday, May 17, 2005, beginning at 9:00 a.m. EDT.

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

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

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

MICHAEL J. POTTER
*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 17, 2005

Notice is hereby given that the Annual Meeting of Shareholders of Big Lots, Inc. will be held at the Company's corporate office located at 300 Phillipi Road, Columbus, Ohio, on Tuesday, May 17, 2005, beginning at 9:00 a.m. EDT. At the meeting, the holders of the Company's outstanding common shares will act on the following matters:

1. The election of nine directors of the Company;
2. The approval of the Big Lots 2005 Long-Term Incentive Plan, in the form attached hereto as Appendix I; and
3. The transaction of such other business as may properly come before the meeting.

Only shareholders of record at the close of business on March 25, 2005, are entitled to notice of and to vote at the Annual Meeting of Shareholders and any postponements or adjournment thereof.

By order of the Board of Directors,

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

April 21, 2005
Columbus, Ohio

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

BIG LOTS, INC.

PROXY STATEMENT

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

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the **Board**) of Big Lots, Inc., an Ohio corporation (the **Company**), for use at the Annual Meeting of Shareholders to be held on May 17, 2005 (the **Annual Meeting**) at the Company's corporate office located at 300 Phillipi Road, Columbus, Ohio. The Notice of Annual Meeting of Shareholders, this Proxy Statement and the accompanying proxy card, together with the Company's Annual Report to Shareholders for the fiscal year ended January 29, 2005 (**fiscal 2004**), are first being mailed to shareholders on or about April 21, 2005.

ABOUT THE ANNUAL MEETING

Purpose of the Annual Meeting

At the Annual Meeting, shareholders will act upon the matters outlined in the Notice of Annual Meeting included with this Proxy Statement. Specifically, the shareholders will be asked to elect the Company's directors, approve the Big Lots 2005 Long-Term Incentive Plan (the **2005 Incentive Plan**), and transact such other business as may properly come before the meeting. In addition, management will report on the performance of the Company.

Shareholder Voting Rights

Only those shareholders of record at the close of business on March 25, 2005, the record date for the Annual Meeting, are entitled to receive notice of and to vote at the Annual Meeting. At the record date, the Company had outstanding 113,561,441 common shares, \$.01 par value per share. Each of the outstanding common shares is entitled to one vote on each matter voted upon at the Annual Meeting, or any postponement or adjournment of the meeting. The holders of common shares have no cumulative voting rights in the election of directors. All voting shall be governed by the Code of Regulations of the Company and the General Corporation Law of the State of Ohio.

Attendance at the Annual Meeting

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

How to Vote

If you complete and sign the accompanying proxy card and return it to the Company, it will be voted only as you direct. If you are a registered shareholder and attend the Annual Meeting, you may deliver your completed proxy card in person. Street name shareholders who wish to vote at the Annual Meeting will need to obtain a proxy form from the broker or other nominee that is the registered holder of the common shares. Additionally, street name shareholders may be able to instruct the broker or other nominee how to vote by telephone or electronically, so please contact your broker or other nominee to determine availability and applicable deadlines.

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

Tabulation of the Votes

Tabulation shall be performed by Automatic Data Processing, Inc., as inspected by duly appointed officers of the Company.

Board's Recommendation

Unless you give other instructions on your proxy card and excluding broker non-votes, the person named as proxy holder on the proxy card will vote the common shares in accordance with the recommendations of the Board. The Board's recommendation is set forth together with the description of each item in this Proxy Statement. In summary, the Board recommends a vote FOR election of the nominated slate of directors (see Proposal One), and FOR the approval of the 2005 Incentive Plan (see Proposal Two). If any other matter properly comes before the Annual Meeting, or if a director nominee named in the Proxy Statement is unable to serve or for good cause will not serve, the proxy holder will vote on such matter or for such substitute nominee as recommended by the Board.

Vote Required to Approve a Proposal

Proposal One

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

Other Matters

For purposes of Proposal Two and 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 the matter will be required for approval. A properly executed proxy marked abstain with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote. If no instructions are given (excluding broker non-votes), the person named as proxy holder on the proxy card will vote the common shares in accordance with the recommendations of the Board.

If you hold your common shares in street name through a broker or other nominee, your broker or other nominee may not be permitted to exercise discretionary voting power with respect to some of the matters to be acted upon. Thus, if you do not give your broker or other nominee

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specific instructions, your common shares may not be voted on those matters and will not be counted in determining the number of common shares necessary for approval. Common shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum. Under New York Stock Exchange (NYSE) rules, your broker or other nominee may not vote your common shares on Proposal Two relating to the 2005 Incentive Plan absent instructions from you. Without your voting instructions on this item, a broker non-vote will occur.

Quorum

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

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PROPOSAL ONE: ELECTION OF DIRECTORS

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

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

Name	Age	Principal Occupation for the Past Five Years	Director Since
Sheldon M. Berman	64	Chairman, Chief Executive Officer and President, Xtream Creative, Inc. (business planning, marketing planning, and advertising services).	1994
David T. Kollat	66	President and Founder, 22, Inc. (research and management consulting).	1990
Brenda J. Lauderback	54	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	47	Independent financial consultant; retail stock analyst, Coker & Palmer (securities brokerage services); former Vice President and Chief Financial Officer, Intimate Brands, Inc. (retail stores).	2003
Ned Mansour	56	Former President, Mattel, Inc. (designer, manufacturer and marketer of toy products).	2003
Michael J. Potter	43	Chairman, Chief Executive Officer and President of the Company; former Executive Vice President and Chief Financial Officer of the Company.	2000
Russell Solt	57	Director of Investor Relations, West Marine, Inc. (specialty retailer and catalog company); former Executive Vice President and Chief Financial Officer, West Marine, Inc.; former Senior Vice President and Chief Financial Officer, West Marine, Inc.; former President, Venture Stores (discount retailer).	2003
James R. Tener	55	President and Chief Operating Officer, Brook Mays Music Group (retail and wholesale music); former Chief Operating Officer, The Sports Authority.	2005
Dennis B. Tishkoff	61	Chairman and Chief Executive Officer, Drew Shoe Corporation (manufacture, import and export, retail and wholesale footwear); President, Tishkoff and Associates, Inc. (retail consultant); former President and Chief Executive Officer, Shoe Corporation of America (retail footwear).	1991

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

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GOVERNANCE OF THE COMPANY

Current Members of the Board of Directors

The members of the Board on the date of this Proxy Statement, and the committees of the Board on which they serve, are identified below. The Board has standing Audit, Nominating and Compensation, and Corporate Governance Committees. During fiscal 2004, the Board formed an ad hoc Search Committee to assist the Board in identifying a new Chief Executive Officer (CEO). All committees report on their activities to the Board.

Director	Audit Committee	Nominating and Compensation Committee	Corporate Governance Committee	Search Committee
Sheldon M. Berman			*	
David T. Kollat		**	*	**
Brenda J. Lauderback	*			*
Philip E. Mallott	**	*		*
Ned Mansour			**	
Michael J. Potter				
Russell Solt	*			
James R. Tener				
Dennis B. Tishkoff		*		*

* Member of Committee

** Committee Chair

Board Meetings in Fiscal 2004

Thirteen meetings of the Board were held during fiscal 2004. During the period for which he or she was a director in fiscal 2004, each director attended at least 75% of all meetings of the Board and the committees on which he or she served. It is the policy of the Company that each nominee standing for election be present at the Company's Annual Meeting of Shareholders, and each director listed above attended the Company's most recent Annual Meeting of Shareholders held in May 2004, except for Mr. Tener who did not become a director until January 30, 2005. Under the Company's Corporate Governance Guidelines, each director is expected to dedicate sufficient time and attention to ensure the diligent performance of his or her duties, including by attending meetings of the shareholders of the Company, the Board, and the committees of which he or she is a member.

Role of the Board's Committees***Audit Committee***

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibility with respect to the integrity of the financial reports and other financial information provided by the Company to its shareholders and others; the Company's compliance with legal and regulatory requirements; the engagement of the independent auditor and the evaluation of the independent auditor's qualifications, independence and performance; the performance of the Company's system of internal controls; and the Company's audit, accounting and financial reporting processes generally. All members of the Audit Committee are independent as required by the Audit Committee's charter and by the applicable NYSE and Securities and Exchange Commission (SEC) rules. Philip E. Mallott and Russell Solt serve as the Audit Committee's financial experts and the Board has determined that both satisfy the standards for audit committee financial expert as required by the SEC under the Sarbanes-Oxley Act of 2002. Each member of the Audit Committee is financially literate, as required by the NYSE rules. The charter of the Audit Committee is available on the Company's website at www.biglots.com under the Investor Relations Governance caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Audit Committee met eleven times during fiscal 2004.

Nominating and Compensation Committee

The Nominating and Compensation Committee is responsible for recommending individuals to the Board for nomination as members of the Board and its committees, and to discharge the responsibilities of the Board relating to the administration of the Company's compensation programs. The Nominating and Compensation Committee is involved in establishing the Company's general compensation philosophy, and oversees the development and implementation of compensation programs. All members of the Nominating and Compensation Committee are independent as required by the Committee's charter and the NYSE rules.

The functions of the Nominating and Compensation Committee are further described in its charter and in the Selection of Nominees by the Board and Executive Compensation Report sections of this Proxy Statement. The charter of the Nominating and Compensation Committee is available on the Company's website at www.biglots.com under the Investor Relations Governance caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Nominating and Compensation Committee met four times during fiscal 2004.

Corporate Governance Committee

The primary function of the Corporate Governance Committee is to assist the Board and take a leadership role in shaping the Company's corporate governance policies and practices, including recommending to the Board the Corporate Governance Guidelines applicable to the Company and monitoring Company compliance with the same. All members of the Corporate Governance Committee are independent as required by the Committee's charter and the NYSE rules. The charter of the Corporate Governance Committee is available on the Company's website at www.biglots.com under the Investor Relations Governance caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary. The Corporate Governance Committee met twice during fiscal 2004.

Search Committee

In January 2005, the Company announced Michael J. Potter's desire to transition from his role as CEO and President. The Board formed an ad hoc Search Committee with the purpose of identifying a new CEO. Mr. Potter will continue to serve as CEO and President until his successor has been elected. The Search Committee is being assisted in its recruitment efforts by an independent executive search firm that provides research and other pertinent information regarding potential candidates. In conducting its search, the Search Committee is reviewing each candidate's skill set and experience as it relates to the needs of the Company. Once it has completed the process of identifying and interviewing CEO candidates, the Search Committee will recommend to the Board for its consideration a new CEO. The Search Committee met three times in fiscal 2004.

Presiding Member of the Board

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

Determination of Director Independence

In August 2003, the Board adopted its Corporate Governance Guidelines. The Guidelines adopted by the Board comply with the NYSE rules. The Guidelines can be found on the Company's website at www.biglots.com under the Investor Relations Governance caption. A copy may also be obtained, without charge, upon written request of the Company's Corporate Secretary.

Pursuant to the Guidelines, the Board undertook its most recent annual review of director independence in February 2005. During this review, the Board considered transactions and relationships between each director, his or her affiliates,

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

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

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

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

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

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

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

Other Directorships

Mr. Kollat is a director of The Limited, Inc., Cheryl & Co., Select Comfort Corporation, and Wolverine Worldwide, Inc. Mr. Kollat serves on the compensation committee at Cheryl & Co., and also serves on the audit committee at Wolverine Worldwide, Inc. and Select Comfort Corporation. Ms. Lauderback is a director of Select Comfort Corporation, Irwin Financial Corporation, Wolverine Worldwide, Inc. and Louisiana Pacific Corporation. Ms. Lauderback is a member of the audit committee at Wolverine Worldwide, Inc., and serves on both the audit and compensation committees at Irwin Financial Corporation. Mr. Mallott is a director of Too, Inc., where he also serves as the chair of the audit committee. Mr. Mansour is a director of The Ryland Group, where he is a member of the audit committee. Mr. Tener is a director of Edwin Watts Golf. Mr. Tishkoff is a director of Drew Shoe Corporation and Impulse Wear, Inc., where he serves on the compensation committee.

Selection of Nominees by the Board

The Nominating and Compensation Committee has oversight over a broad range of issues surrounding the composition and operation of the Board. The Nominating and Compensation Committee is responsible for recommending to the Board the appropriate skills and characteristics required of Board members, based on the needs of the Company from time to time. The Nominating and Compensation Committee also evaluates prospective nominees against the standards and qualifications set forth in the Company's Corporate Governance Guidelines. Although the Nominating and Compensation Committee has not approved any specific minimum qualifications that must be met by a nominee for director recommended by the Committee, the Committee does consider factors such as the prospective nominee's relevant experience, character, intelligence, independence, commitment, judgment,

prominence, diversity, age, and compatibility with the Company's CEO and other members of the Board. The Nominating and Compensation

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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 and Compensation Committee shall confer with the full Board as to the criteria it intends to apply before the search for a new director is commenced.

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

Pursuant to its written charter, the Nominating and Compensation Committee also has the authority to retain consultants and search firms to assist in the process of identifying and evaluating candidates and to approve the fees and other retention terms for any such consultant or search firm. No such consultant or search firm has been used to date and, accordingly, no fees have been paid to any such consultant or search firm.

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

Following the resignation of Albert J. Bell from the Board on August 17, 2004, the Board directed the Nominating and Compensation Committee to conduct a search for a new director. The Nominating and Compensation Committee identified and recommended Mr. Tener. The Board appointed Mr. Tener to fill the Board vacancy effective January 30, 2005.

Director Compensation

Base Compensation

Pursuant to arrangements with the Company, each director who is not an officer of the Company and who is not involved in the daily affairs of managing the Company (outside director) receives an annual retainer and a fee for each Board and committee meeting attended, including for the ad hoc Search Committee. In fiscal 2004, the annual retainer was \$30,000, and the meeting fee was \$1,000 for each Board or committee meeting attended in person and \$500 for each Board or committee meeting attended by telephone. During fiscal 2004, seven directors, Messrs. Berman, Kollat, Tishkoff, Mallott, Mansour and Solt, and Ms. Lauderback, qualified as outside directors and, thus, were parties to such arrangements.

Effective January 30, 2005, base compensation for outside directors was modified and now consists of: an annual retainer of \$36,000; an annual retainer of \$4,000 for the chair of the Audit Committee; an annual retainer of \$2,000 for the chair of each of the Board's other committees; \$1,500 for each Board meeting attended in person; \$1,000 for each committee meeting attended in person; \$500 for each Board or committee meeting attended telephonically; and the ability to have the Company consider making a donation of up to \$10,000 annually to a charity recommended by the director.

Stock Options

In addition to base compensation, outside directors receive stock option grants under the Big Lots Director Stock Option Plan (Director Stock Option Plan). During fiscal 2004, each of the seven outside directors received an option to acquire 10,000 common shares of the Company pursuant to the Director Stock Option

Plan. The Director Stock Option Plan is administered by the Nominating and Compensation Committee pursuant to an established formula. The number of common shares available under the Director Stock Option Plan initially consisted of the original allocation of 500,000 common shares (781,250 shares as adjusted to account for the five for four stock splits which occurred in December 1996 and June 1997). Neither the Board nor the Nominating and Compensation Committee exercise any discretion in administering the Director Stock Option Plan, and the administration performed by the Nominating and Compensation Committee is ministerial in nature. The formula which governs the grant of

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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 of the eligible outside directors are granted annually an option to acquire 10,000 of the Company's common shares, for an exercise price equal to the fair market value on the date of grant. Each annual grant occurs on the last day of the quarterly trading period next following the Annual Meeting of Shareholders.

Stock options granted under the Director Stock Option Plan become exercisable over three years beginning upon the first anniversary of the grant date, whereby the stock option becomes exercisable for 20% of the shares on the first anniversary, 60% on the second anniversary, and 100% on the third anniversary. Stock options automatically terminate 10 years and one month following the date of grant. An optionee may exercise and dispose of a stock option only during specific quarterly trading periods, and only if at all times during the period beginning on the date such stock option was granted and ending on the day three months before the date of exercise, he or she was a director of the Company. Stock options granted under the Director Stock Option Plan are not transferable other than by will or the laws of descent and distribution.

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

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

Shareholder Communications to the Board

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

<i>Call the Board at:</i>	(866) 834-7325
<i>Write to the Board at:</i>	Big Lots Board of Directors, 300 Phillipi Road, Columbus, Ohio 43228-5311
<i>E-mail the Board at:</i>	www.ci-wackenhut.com/getreal.htm

Under a process approved by the Corporate Governance Committee for handling correspondence received by the Company and addressed to outside directors, the Office of the General Counsel of the Company reviews all such correspondence and forwards to the Board a summary and/or copies of any such correspondence that, in the opinion of the General Counsel, deals with the functions of the Board or Committees thereof or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is directed to members of the Board and request copies of any such correspondence. Concerns relating to the Company's accounting, internal accounting controls or auditing matters will be referred to members of the Audit Committee. Concerns relating to the Board or members of senior management will be referred to the members of the Corporate Governance Committee. Those parties sending written communications to the Board will receive a written acknowledgement upon the Company's receipt of the communication. Parties submitting communications to the Board may choose to do so anonymously or confidentially.

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STOCK OWNERSHIP

Ownership of Company Stock by Certain Beneficial Owners and Management

The following table sets forth certain information with regard to the beneficial ownership of the common shares of the Company by each holder of more than 5% of such common shares, each director, each of the executive officers named in the Summary Compensation Table, and all executive officers and directors of the Company as a group. The assessment of holders of more than 5% of the Company's common shares is based on a review of and reliance upon filings with the SEC. Except as otherwise indicated, all information is as of February 22, 2005.

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Name of Beneficial Owner or Identity of Group	Amount and Nature of Beneficial Ownership(8)(9)	Percent of Outstanding Common Shares
Albert J. Bell	0	*
Sheldon M. Berman (1)	63,375	*
David T. Kollat	147,846	*
Kent Larsson	303,955	*
Brenda J. Lauderback	33,300	*
Philip E. Mallott	4,500	*
Ned Mansour	10,000	*
John C. Martin	80,708	*
Donald A. Mierzwa	372,925	*
Michael J. Potter	1,269,830	1.1%
Russell Solt	4,000	*
James R. Tener	0	*
Dennis B. Tishkoff	51,235	*
Brad A. Waite	534,538	*
FMR Corp. (2)	14,978,119	13.3%
Cooke & Bieler, L.P. (3)	11,356,949	10.1%
Capital Research and Management Company (4)	10,921,400	9.7%
First Pacific Advisors, Inc. (5)	10,514,700	9.3%
Royce & Associates, LLC (6)	7,789,500	6.9%
Mac-Per-Wolf Company (7)	7,678,293	6.8%
All directors & executive officers as a group (18 persons)	3,062,385	2.7%

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

- (1) Includes 5,468 common shares owned by Xtream Creative, Inc., of which Mr. Berman serves as Chairman, Chief Executive Officer and President.
- (2) In its joint statement on Schedule 13G filed on February 14, 2005, with Edward C. Johnson III and Abigail P. Johnson, FMR Corp. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2004, which number includes 14,394,526 shares (12.8% of the common shares at that date) beneficially owned by Fidelity Management & Research Company in its capacity as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940, and 583,593 shares beneficially owned by Fidelity Management Trust Company as a result of its serving as investment manager for various institutional accounts. Of the common shares reported in the table above, FMR Corp. has sole voting power over 514,793 shares and sole dispositive power over all 14,978,119 shares.
- (3) In its Schedule 13G filed on January 7, 2005, Cooke & Bieler, L.P. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2004, had no sole voting power over the shares, shared voting power over 6,746,679 of the shares, no sole dispositive power over the shares, and shared dispositive power over all of the shares.

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- (4) In its joint statement on Schedule 13G filed on February 11, 2005, with The Growth Fund of America, Inc., Capital Research and Management Company stated that it beneficially owned the number of common shares reported in the table as of December 31, 2004, had no voting power over any of the shares and sole dispositive power over all the shares, and that The Growth Fund of America, Inc. had sole voting power over 6,650,000 common shares (5.9% of the common shares at that date) and no dispositive power over any of the shares.

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- (5) In its Schedule 13G filed on February 11, 2005, First Pacific Advisors, Inc. stated that it beneficially owned the number of common shares reported in the table as of December 31, 2004, had shared voting power over 3,381,500 of the shares and shared dispositive power over all the shares.
- (6) In its Schedule 13G filed on January 21, 2005, Royce & Associates, LLC stated that it beneficially owned the number of common shares reported in the table as of December 31, 2004, and had sole voting power and sole dispositive power over all of the shares.
- (7) In its Schedule 13G filed on January 31, 2005, Mac-Per-Wolf Company stated that it beneficially owned the number of common shares reported in the table as of December 31, 2004, and had sole voting and sole dispositive power over all of the shares. The Schedule 13G was filed on behalf of two subsidiaries of Mac-Per-Wolf Company, PWMCO, LLC and Perkins, Wolf, McDonnell and Company, LLC.
- (8) The persons named in the table have sole voting power and dispositive power with respect to all common shares of the Company shown as beneficially owned by them, except as otherwise stated in the footnotes to this table. The amounts set forth in the table are adjusted to account for the five for four stock splits which occurred in December 1996 and June 1997, and include common shares that may be acquired within 60 days of the record date under stock options exercisable within that period. Of the common shares reported for Messrs. Bell, Berman, Kollat, Larsson, Mallott, Mansour, Martin, Mierzwa, Potter, Solt, Tener, Tishkoff and Waite, Ms. Lauderback, and for all directors and executive officers as a group, 0, 48,626, 48,626, 260,375, 2,000, 2,000, 30,000, 363,125, 1,197,812, 2,000, 0, 48,626, 463,125, 33,000, and 2,647,015, respectively, are common shares which may be acquired within 60 days of the record date under stock options exercisable within that period. Percentage ownership was based on common shares of the Company outstanding at February 22, 2005, unless otherwise stated.
- (9) The beneficial ownership of Messrs. Bell, Larsson, Martin, Mierzwa, Potter, and Waite includes 0, 5,142, 618, 6,374, 28,579, and 14,889 common shares, respectively, in contributions to the Big Lots Supplemental Savings Plan, which contributions are reflected as investments in phantom units of the Company's common shares.

The addresses of the persons shown in the table above as a beneficial owner of more than 5% of the Company's common shares are as follows: FMR Corp., Fidelity Management & Research Company, and Fidelity Management Trust Company, 82 Devonshire Street, Boston, MA 02109; Cooke & Bieler, L.P., 1700 Market Street, Philadelphia, PA 19103; Capital Research and Management Company, 333 South Hope Street, Los Angeles, CA 90071; First Pacific Advisors, Inc., 11400 West Olympic Boulevard, Suite 1200, Los Angeles, CA 90064; Royce & Associates, LLC, 1414 Avenue of the Americas, New York, NY 10019; and Mac-Per-Wolf Company, 310 South Michigan Avenue, Suite 2600, Chicago, IL 60604.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (Exchange Act) requires the Company's directors and executive officers, and persons who beneficially own more than 10% of the Company's outstanding common shares, to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of common shares of the Company. Executive officers, directors and greater than 10% shareholders are required by the regulations of the SEC to furnish the Company with copies of all Section 16(a) reports they file. Based upon a review of filings with the SEC and written representations that no other reports were required, we believe that all of our directors, executive officers and 10% shareholders complied during fiscal 2004 with the reporting requirements of Section 16(a) of the Exchange Act.

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Notwithstanding anything to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933 or the Exchange Act that might incorporate this Proxy Statement or future filings with the SEC, in whole or in part, the Report of the Audit Committee, the Nominating and Compensation Committee Report on Executive Compensation, and the performance graph shall not be deemed to be incorporated by reference into any such filing.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee (referred to as the Committee for purposes of this Report) assists the Board in fulfilling its oversight responsibility with respect to the integrity of the Company's accounting, auditing and reporting processes. Annually, the Committee selects the Company's independent auditors. Deloitte & Touche LLP was selected as the Company's independent auditors for fiscal 2004. As of the date of the Proxy Statement, no independent auditor has been selected for the fiscal year ending January 28, 2006 (fiscal 2005), as the Committee believes it to be in the Company's best interest to delay its selection until a reasonable time following the completion of the fiscal 2004 audit.

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

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

the integrity of the Company's financial statements and financial reporting process, and the Company's systems of internal accounting and financial controls;

the Company's compliance with legal and regulatory requirements, including the Company's disclosure controls and procedures;

the annual independent audit of the Company's financial statements, the engagement of the independent auditor, and the evaluation of the independent auditor's qualifications, independence and performance;

the performance of the Company's internal audit function;

the evaluation of enterprise risk issues; and

the fulfillment of other responsibilities set forth in its charter.

The full text of the Committee's charter is available on the Company's website at www.biglots.com under the Investor Relations Governance caption. The Committee regularly reviews its responsibilities as outlined in its charter, prepares an annual agenda to include all of its responsibilities, conducts a self-assessment and review of the charter annually, and believes it fulfilled its responsibilities thereunder in fiscal 2004.

The Committee met eleven times during fiscal 2004. The Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its tasks. The Committee's meetings include, whenever appropriate, executive sessions with the Company's independent auditors and with the Company's internal auditors, in each case without the presence of the Company's management. The Committee also meets in executive session without the presence of anyone else, whenever appropriate.

During the course of fiscal 2004, management completed the documentation, testing and evaluation of the Company's system of internal control over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. The Committee was apprised of the progress of the evaluation and provided oversight and advice to management during the process. In connection with this oversight, the Committee received periodic updates provided by management and Deloitte & Touche LLP at each regularly scheduled Committee meeting. The Committee also reviewed the report of management contained in the Company's Annual Report on Form 10-K for fiscal 2004, as well as Deloitte & Touche LLP's Report of Independent Registered Public Accounting Firm included in the Company's Annual Report on Form 10-K related to its audit of (i) the Company's consolidated financial statements and financial statement schedule, (ii) management's assessment of the effectiveness of internal control over financial reporting, and

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(iii) the effectiveness of internal control over financial reporting. The Committee continues to oversee the Company's efforts related to its internal control over financial reporting and management's preparations for the evaluation in fiscal 2005.

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

The Committee has also considered whether Deloitte & Touche LLP's provision of any non-audit services to the Company is compatible with maintaining the independence of Deloitte & Touche LLP. Consistent with the Committee's Audit and Non-Audit Services Pre-Approval Policy, all audit and non-audit services rendered by Deloitte & Touche LLP in fiscal 2004, including the related fees, were pre-approved by the Committee. Under the policy, the Committee is required to pre-approve all audit and permissible non-audit services performed by the

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independent auditor in order to assure that the provision of those services does not impair the independent auditor's independence. Pre-approval is detailed as to the particular service or category of service and is subject to a specific engagement authorization. The Committee requires the independent auditor and management to report on the actual fees incurred for each category of service at Committee meetings throughout the year.

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

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

	<u>Fiscal 2004</u>	<u>Fiscal 2003</u>
Audit Fees	\$ 1,367,000	\$ 436,000
Audit-Related Fees (a)	\$ 120,000	\$ 67,000
Tax Fees (b)	\$ 114,000	\$ 148,000
All Other Fees	\$ 0	\$ 0

- (a) Principally consists of audits of employee benefit plans, accounting consultation, and nonrecurring services related to compliance with the Sarbanes-Oxley Act of 2002.
- (b) Principally consists of tax return preparation, tax planning, and tax compliance services.

The Committee has also reviewed key initiatives and programs aimed at strengthening the effectiveness of the Company's internal and disclosure control structure. As part of this process, the Committee continued to monitor the scope and adequacy of the Company's internal auditing program, reviewing staffing levels and steps taken to implement recommended improvements in internal procedures and controls. Based on all of these discussions and a review of all the items delivered, the undersigned members of the Committee recommended to the Board that it approve the inclusion of the Company's audited consolidated financial statements in the Company's Annual Report on Form 10-K for fiscal 2004, for filing with the SEC.

Members of the Audit Committee

Philip E. Mallott, Chair
Brenda J. Lauderback
Russell Solt

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NOMINATING AND COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The compensation program for the Company's executive officers, including the CEO and the other executive officers named in the Summary Compensation Table (the "Named Executive Officers"), is administered by the Nominating and Compensation Committee of the Board (referred to as the "Committee" for purposes of this Report). The role of the Committee includes establishing and implementing the philosophy, policies and procedures applicable to the Company's executive compensation program; reviewing and approving all executive officers' compensation; administering the Company's equity-based compensation plans and approving grants made to executive officers thereunder; and reporting on the entirety of the executive compensation program to the Board. The Committee's charter reflects these responsibilities, and the Committee and the Board periodically review the charter and revise it as needed. The charter is available on the Company's website at www.biglots.com under the Investor Relations Governance caption.

The Committee's membership is determined by the Board and is composed of three outside directors who are independent within the meaning of the listing standards of the NYSE. The Committee meets at scheduled times during the year and as otherwise needed. The Committee Chair reports on Committee actions and recommendations at Board meetings. The Company's Human Resources Department and a management working group support the Committee's efforts and in some cases act pursuant to delegated authority to fulfill various functions in administering the Company's compensation programs. In addition, the Committee has the authority to engage the services of outside advisers, experts and others to assist the Committee. As discussed in greater detail below, in fiscal 2004, the Committee engaged an outside compensation consulting firm to assist the Committee in its review of the compensation program for executive officers and other members of management.

Committee Meetings

In fiscal 2004, the Committee met four times with 100% attendance. At the first Committee meeting during the year, all components of the CEO's and other Named Executive Officers' compensation were reviewed and analyzed. Information concerning the CEO's and other Named Executive Officers' compensation was distributed prior to the meeting to insure that the Committee members had time to ask for additional information, raise questions, and further discuss the compensation amount.

Compensation Philosophy

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

The Committee believes that the strong performance of its executive officers is a key to the Company's success. Consequently, the Committee has adopted compensation incentives, both short-term and long-term, with a goal of maximizing shareholder value. The Committee feels that these incentives should be implemented with a high degree of responsiveness to the performance of the Company. To achieve this responsiveness, importance is placed upon executive officer participation in the Company's performance through equity ownership, and through bonus opportunities based upon the Company's performance. Guided by principles that reinforce the Company's pay-for-performance philosophy, the primary compensation components for all executive officers, including the CEO and the other Named Executive Officers, consist of salary, bonus opportunities under the Company's 1998 Key Associate Annual Incentive Compensation Plan, as amended (the "Bonus Plan"), and non-qualified stock options granted under the Big Lots, Inc. 1996 Performance Incentive Plan, as amended (the "1996 Incentive Plan"). The Committee believes these components properly align the financial interests and success of executive officers with those of the shareholders. In addition, executive officers are entitled to certain benefits according to the Company's policies and under the Company's health and welfare plans.

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

In connection with the Committee's fiscal 2004 review, the outside compensation consultant provided an independent analysis of the Company's executive compensation program and practices. The analysis completed by the outside consultant, as corroborated by the Committee and management, included a review of the salaries, bonus opportunities, and annual stock option awards of the Company's executives. Both the Committee's review and the outside consultant's observations suggest that the Company's executive compensation program has a high proportion of total compensation delivered through pay-for-performance incentive and long-term equity compensation.

Executive Compensation Practices

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

long-term strategic goals;

short-term business goals;

revenue and profit goals;

improving operating margins;

revenue growth versus the industry;

earnings-per-share growth;

continued optimization of organizational effectiveness and productivity;

the development of talent and leadership throughout the Company; and

the fostering of teamwork and other Company values.

In setting the goals and measuring an executive's performance against those goals, the Committee also considers the performance of its competitors and general economic and market conditions. None of the factors used by the Committee are assigned a specific weight. Instead, the Committee recognizes that the relative importance of these factors may change in order to adapt the Company's operations to specific business

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challenges and to reflect the changing economic and marketplace conditions. The success of each executive's efforts and their benefits to the Company cannot, of course, be quantifiably measured, but the Committee believes they are vital to the Company's continuing success.

Executive Compensation Components

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

salary;

bonus;

equity; and

benefits.

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

Salary

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

Bonus

The Bonus Plan provides for cash compensation to be paid annually when certain performance targets are achieved. No right to a minimum bonus exists under the Bonus Plan. Bonuses are only paid when the Company achieves specific performance targets established by the Committee. The Committee derives its bonus targets and defines the bonus goals (e.g., floor, target and stretch) from the Company's planned earnings for the fiscal year, as approved by the Board at the start of the fiscal year. The establishment of the Company's performance targets remains solely in the Committee's discretion.

Bonus goals are determined as a percentage of salary. The baseline percentage of salary for the CEO and each of the other Named Executive Officers has been established by their respective employment agreements. For executives other than the CEO and the other Named Executive Officers, the percentage of salary approved by the Committee is set by position level and is subjectively determined.

During fiscal 2004, the Company's executives, including the CEO and the other Named Executive Officers, participated in the Bonus Plan; however, no bonuses were paid under the Bonus Plan as the performance targets established by the Committee were not met.

Equity

The 1996 Incentive Plan is designed to encourage creation of long-term value for the Company's shareholders and equity ownership by the Company's executive officers, including the CEO and the other Named Executive Officers. Each stock option grant allows the executive to acquire common shares of the Company, subject to the completion of a five-year vesting period, and continued employment with the Company. Once vested, these common shares may be acquired at a fixed price per share (the market price on the grant date) and remain exercisable for the term set by the Committee, which has historically been 10 years from the grant date. An executive's grant amount, if any, is made at the Committee's discretion and is based on competitive market conditions, the position of the executive, and individual and Company performance. During fiscal 2004, the Company made stock option grants to the Company's executives, including the CEO and the other Named Executive Officers, under the 1996 Incentive Plan.

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During fiscal 2004, the Company also made restricted stock grants to certain of the Company's executive officers, including Brad A. Waite and John C. Martin, both of whom are Named Executive Officers, under the 1996 Incentive Plan. The restricted stock is held in escrow and will vest annually on the anniversary date of the grant over a three year period. The restricted stock grants will fully vest if the executive officer is involuntarily terminated for any reason other than cause before the lapse of such three year period. The restricted stock grants will be forfeited, in whole or in part, as applicable, if the executive officer voluntarily terminates his or her employment or if the executive officer is involuntarily terminated for cause.

Benefits

The Company's philosophy is to offer employees protection from catastrophic events by offering health and welfare benefits under the Big Lots Associate Benefit Plan (the Benefit Plan). Where applicable, employees are responsible for managing benefit choices and balancing their own level of risk and return. During fiscal 2004, the Company offered medical and other benefits to its executives, including the CEO and the other Named Executive Officers, that are generally available to other of its employees under the Benefit Plan, plus the opportunity to participate in the Big Lots Executive Benefit Plan (the Executive Benefit Plan). The Executive Benefit Plan is a supplemental health benefit plan that reimburses participants for medical costs incurred but not covered under the Benefit Plan, up to an annual maximum reimbursement of \$40,000 per participant. Amounts received by participants in the Executive Benefit Plan are treated as taxable income. The Company reimburses each executive receiving taxable benefits under the Executive Benefit Plan for the approximate amount of the executive's income and payroll tax liability relating to the benefits received.

The Company also provides executive officers with certain personal benefits. Personal benefits that are generally available to all officers at or above the level of vice president include the option of using a Company automobile or accepting a monthly allowance, and the use of a cellular telephone and a personal digital assistant. Additionally, the Company provides certain other personal benefits consistent with programs offered to substantially all of the Company's salaried employees, including discounted purchases at the Company's stores and tuition reimbursement.

Comprehensive Review Process

During fiscal 2004, the Committee reviewed all components of the executive officers', including the CEO's and the other Named Executive Officers', compensation—salary, bonus, equity and benefits—as well as the accumulated realized and unrealized stock option gains. Additionally, the Committee analyzed the market competitiveness and effectiveness of the design of the Company's executive compensation program, and examined the 1996 Incentive Plan and considered several alternative equity compensation programs to replace the 1996 Incentive Plan following its expiration in 2005, including the 2005 Incentive Plan discussed below. In order to assist with these deliberations, the Committee engaged an outside compensation consulting firm.

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

As part of its review of the bonus component of the Company's executive compensation program, the Committee certified before payment the bonuses paid to the Company's executives, including the CEO and the other Named Executive Officers, for performance in the fiscal year ended January 31, 2004 (fiscal 2003) in accordance with the Bonus Plan and according to the performance targets set by the Committee at the start of fiscal 2003. For fiscal 2004, the Committee considered the various indicia of Company achievement in order to establish meaningful performance targets under the Bonus Plan. The Committee chose to use a formula based on the executive's salary and a measure of the Company's income. To determine whether executives were eligible to receive and the amounts of each executive's bonus for fiscal 2004, each executive's salary was multiplied by a payout percentage corresponding to a performance target set by the Committee. The target established by the Committee for fiscal 2004 was based on the greater of (i) income from continuing operations, (ii) income (loss) from continuing operations before extraordinary items and/or the cumulative effect of a change in accounting principle, (iii) income before extraordinary items, and (iv) net income, with each such measure being adjusted to remove the effect of unusual or non-recurring event items. In making adjustments to remove the effect of unusual or non-recurring event

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items, the Committee took into account: asset impairments under Statement of Financial Accounting Standards No. 144, as amended or superseded; acquisition-related charges; accruals for restructuring and/or reorganization program charges; merger integration costs; merger transaction costs; any loss attributable to the business operations of any entity or entities acquired during fiscal 2004; tax settlement charges; any extraordinary, unusual in nature, infrequent in occurrence, or other non-recurring item charges (not otherwise listed) as described in Accounting Principles Board Opinion No. 30; any extraordinary, unusual in nature, infrequent in occurrence, or other non-recurring item charges (not otherwise listed) in management's discussion and analysis of financial condition and results of operations, selected financial data, financial statements and/or in the footnotes to financial statements, each as appearing in the annual report to shareholders; unrealized losses on investments; charges related to derivative transactions contemplated by Statement of Financial Accounting Standards No. 133, as amended or superseded (such as the amendment by Statement 138, if applicable); and/or compensation charges related to stock option activity.

The Committee also allows bonus payouts at lower than target levels (floor) and greater than target levels (stretch). The Committee believes the performance targets established for fiscal 2004 bear a strong relationship to its philosophy of tying executive compensation to shareholder value. The Committee's aim in setting the bonus objectives was to reward Bonus Plan participants while generating substantial free cash flow and strong earnings growth for the Company.

In light of the Company's performance in fiscal 2004, the total executive cash compensation remained below the market average, because the Committee's philosophy requires that the Company consistently perform at high levels to deliver at or above-market compensation. Based on its review, the Committee finds the CEO's and the other Named Executive Officers' total compensation to be reasonable and not excessive. It should be noted that when the Committee considers any component of the CEO's or another Named Executive Officer's total compensation, the aggregate amounts and mix of all the components, including accumulated (realized and unrealized) stock option gains are taken into consideration in the Committee's decisions.

2005 Incentive Plan

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At the Annual Meeting, shareholders will be asked to approve the 2005 Incentive Plan. The key features of the 2005 Incentive Plan are set forth in greater detail under Proposal Two of this Proxy Statement.

All salaried employees, consultants and advisors of the Company are eligible to participate in the 2005 Incentive Plan. The 2005 Incentive Plan permits the grant of stock options, stock appreciation rights, performance units, restricted stock, and restricted stock units. The Committee believes that this will provide the Company with the flexibility necessary to provide competitive equity-based compensation in an evolving regulatory and competitive practices framework. In addition to a carryover of the authorized but unissued common shares of the Company remaining under the 1996 Incentive Plan, the 2005 Incentive Plan authorizes the grant of up to 1,250,000 common shares of the Company in the form of incentive awards, plus an additional 0.75% of the total number of issued common shares (including treasury shares) as of the start of each of the Company's fiscal years that the 2005 Incentive Plan is in effect. The Committee expects this to be sufficient to meet the Company's needs for equity-based compensation awards for approximately seven years. The Committee believes that the 2005 Incentive Plan reflects leading compensation and governance practices.

Internal Pay Equity

In the process of reviewing each component of compensation separately, and in the aggregate, the Committee directs the Company's Human Resources Department to prepare a summary showing the relative compensation of each level of management (e.g., between the CEO and other Named Executive Officers, and then between the CEO and the lower levels of executives). The comparison includes all components of compensation. The Committee believes that the relative difference between CEO compensation and the compensation of the Company's other executives has not increased significantly over the years.

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Compensation for the Chief Executive Officer in Fiscal 2004

Mr. Potter has served as CEO, President and Chairman of the Board since June 2000. The Committee followed the philosophy and practices described above to determine his fiscal 2004 compensation. In setting both the cash-based and equity-based elements of Mr. Potter's compensation, the Committee made an overall assessment of his leadership in establishing the Company's long-term and short-term strategic, operational and business goals. Additionally, as part of the review process, the Committee assessed: the Company's planned and actual increase in pretax income, market performance of its common shares, business growth and the achievement of other previously established non-financial criteria; the Company's financial and business results compared to the other companies within the retail industry; the Company's market competitiveness as measured by customer feedback; and the health of the Company as measured by employee surveys and the ability to attract and retain key talent.

Mr. Potter's total compensation reflects a consideration of both competitive forces and the Company's performance. The resulting total compensation package was competitive with CEOs at companies in the competitive market.

In January 2005, the Company announced that Mr. Potter will transition from his role as CEO and President to the newly created position of Chief Strategy Officer (CSO). In connection with the transition plan, Mr. Potter's June 26, 2000 employment agreement (the Old Employment Agreement) was voluntarily terminated by Mr. Potter and the Company, and Mr. Potter entered into a new employment agreement with the Company on January 6, 2005 (the New Employment Agreement). Under the terms of the New Employment Agreement, Mr. Potter will continue as the Company's CEO and President until a successor is appointed. Thereafter, he will become the Company's CSO.

CEO Salary

Mr. Potter's base salary was originally established by the Old Employment Agreement, which does not provide for automatic salary increases. Instead, such increases (if any) are made in the sole discretion of the Committee during its annual review process of the Company's executive officers. The Committee has chosen not to adopt any specific schedule of salary increases, and may adjust Mr. Potter's salary without regard to adjustments in the salaries of other executive officers of the Company. Generally, the Committee will look to the factors described above in determining the amount of Mr. Potter's salary increase. The Committee does not weight such factors in advance or tie Mr. Potter's salary to specific performance criteria. For fiscal 2004, the Committee set Mr. Potter's salary at \$765,000.

The New Employment Agreement provides Mr. Potter with a salary of \$765,000 so long as he continues as CEO, and \$382,500 once he becomes CSO. At the end of his service as CSO and consistent with the terms of the Old Employment Agreement, Mr. Potter will receive a payment of \$765,000 in exchange for two-year non-competition and non-solicitation covenants.

CEO Bonus

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As CEO, Mr. Potter's bonus is determined in accordance with the Bonus Plan. Under the Bonus Plan, Mr. Potter's bonus is based upon the Company's achievement of specific performance targets established by the Committee. Although the Old Employment Agreement and the New Employment Agreement (so long as he remains CEO) each provide Mr. Potter with the opportunity to earn a target bonus equal to his salary and a stretch bonus equal to twice his salary (no right to a minimum bonus exists in either employment agreement), the establishment of the Company's performance targets applicable to his bonus goals are solely in the Committee's discretion. As a result of the Company's performance in fiscal 2004, Mr. Potter did not receive a bonus.

Under the New Employment Agreement, Mr. Potter's bonus as CEO continues to be based upon the Company's achievement of the performance targets established by the Committee in accordance with the Bonus Plan. Mr. Potter may receive, but has no right to, a bonus opportunity once he becomes CSO.

CEO Equity

The Committee believes that the grant of a significant quantity of stock options to Mr. Potter further links Mr. Potter's interests with the interests of the shareholders. Consequently, Mr. Potter's equity interests in the

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Company, through stock options granted under the 1996 Incentive Plan, comprise his primary compensation and align his personal rewards and motivation with Company performance and shareholder value. Stock options are granted to Mr. Potter at the discretion of the Committee.

At the beginning of fiscal 2004, after considering the number of stock options previously granted to him and evaluating his total direct compensation compared to CEOs in the competitive market, the Committee determined that an award of a non-qualified stock option to purchase 350,000 common shares of the Company was appropriate. All of Mr. Potter's stock options, including those granted in fiscal 2004, have an exercise price equal to the fair market value of the Company's common shares at the date each stock option was granted and become exercisable over time during employment, in equal amounts over a five year period on the anniversary date of the grant.

While he continues as CEO and during his tenure as CSO, Mr. Potter may be granted equity awards under the 1996 Incentive Plan at the discretion of the Committee.

Compensation for Other Executive Officers in Fiscal 2004

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

Non-CEO Salary

The salaries paid to the other Named Executive Officers in fiscal 2004 are shown in the Annual Compensation Salary column of the Summary Compensation Table. Each of the other Named Executive Officers is a party to an employment agreement with the Company. Although these employment agreements establish the other Named Executive Officers' respective base salaries, the employment agreements do not provide for any automatic salary increases.

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

Non-CEO Bonus

As shown in the Annual Compensation Bonus column of the Summary Compensation Table, no bonuses were paid to the other Named Executive Officers in fiscal 2004. The bonus component for non-CEO executive officers is determined in accordance with the Bonus Plan. The bonus component for non-CEO executive officers consists of a percentage of salary earned as the Company achieves specific performance

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targets established by the Committee. Other than for the other Named Executive Officers, the percentage of salary is set by position level, and is subjectively determined. Each other Named Executive Officer's employment agreement provides an opportunity to earn a target bonus and a stretch bonus (no right to a minimum bonus exists in the employment agreements).

As with the Company's CEO, the establishment of the Company's performance targets applicable to the other Named Executive Officers, as well as the bonus goals of the other non-CEO executive officers, remain solely in the Committee's discretion. As a result of the Company's performance in fiscal 2004, none of the Company's non-CEO executive officers received a bonus.

In connection with Mr. Potter's transition to CSO, the Company provided a retention package (the Retention Package) to certain executive officers (the Affected Officers), including Brad A. Waite and John C. Martin, both of whom are Named Executive Officers. The purpose of the Retention Package was to provide additional

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incentives for the Affected Officers to remain with the Company throughout the transition of the CEO position from Mr. Potter to his replacement. In accordance with the Retention Package, if the Affected Officer remains employed with the Company through February 1, 2006, or if the Affected Officer is involuntarily terminated before such date for any reason other than cause, he or she will receive a cash bonus. Mr. Waite's bonus is equal to 75% of his base salary, and Mr. Martin's bonus is equal to 60% of his base salary. The bonuses received by the Affected Officers pursuant to the Retention Package will reduce their respective bonuses which would be otherwise received under the Bonus Plan for fiscal 2005.

Non-CEO Equity

The stock options granted to the other Named Executive Officers in fiscal 2004 are shown in the Long-Term Compensation Awards column of the Summary Compensation Table. The equity participation component for executive officers other than the CEO consists primarily of non-qualified stock options granted under the 1996 Incentive Plan. Stock options are typically granted at the beginning of each fiscal year during the Committee's annual review process and in an amount determined by position and performance in the prior fiscal year. In addition, stock options are often granted in connection with the promotion of an individual to a greater level of responsibility. The number of common shares covered by each stock option grant is set in advance by position, subject to adjustment based upon the Committee's subjective perception of the individual's performance.

During fiscal 2004, the Company also granted the Affected Officers restricted common shares of the Company in connection with the Retention Package. The restricted stock grants were made in accordance with the 1996 Incentive Plan and are subject to a Restricted Stock Award Agreement dated January 6, 2005. The restricted stock is held in escrow and will vest annually over a three year period on the anniversary date of the grant. The restricted stock grants will fully vest if the Affected Officer is involuntarily terminated for any reason other than cause before the lapse of such three year period. The restricted stock grants will be forfeited, in whole or in part, as applicable, if the Affected Officer voluntarily terminates his or her employment or if the Affected Officer is involuntarily terminated for cause. Under the Retention Package, Messrs. Waite and Martin received 50,000 and 30,000 restricted common shares, respectively.

Deductibility of Annual Compensation over \$1 Million

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), generally limits the tax deductibility for income tax purposes of compensation paid to the Company's CEO and the four other highest compensated executive officers (other than the CEO) in excess of \$1 million. Compensation in excess of \$1 million may be deducted if it is performance-based compensation within the meaning of the Code. For fiscal 2004, the Company believes it has taken the necessary actions to preserve the deductibility of all payments made under the Company's bonus and equity compensation plans, with the possible exception of the bonuses and restricted stock grants made in connection with the Retention Package. As the Code or the regulations promulgated thereunder change, the Committee intends to take reasonable steps to ensure the continued deductibility of payments under the Company's compensation plans while at the same time considering the goals of the Company's executive compensation philosophy.

Summary

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

Members of the Nominating and Compensation Committee

David T. Kollat, Chair
Philip E. Mallott
Dennis B. Tishkoff

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EXECUTIVE COMPENSATION

Employment Agreements

The Company is a party to employment agreements with certain of its key executives. On June 26, 2000, Messrs. Potter and Bell entered into employment agreements, and, since July 29, 2002, Messrs. Larsson, Martin, Mierzwa and Waite have entered into employment agreements. In connection with his transition to CSO, Mr. Potter and the Company voluntarily terminated the Old Employment Agreement and entered into the New Employment Agreement. In connection with the termination of his employment with the Company, Mr. Bell's employment agreement was terminated effective August 17, 2004, and he no longer has any rights thereunder. Including Mr. Potter's New Employment Agreement, the employment agreements between the Company and the Named Executive Officers and certain of its other key executives are referred to as the Key Executive Agreements.

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

Under the terms of his 2005 Key Executive Agreement, Mr. Potter will continue as the Company's CEO and President until a successor is appointed. Thereafter, he will become the Company's CSO for up to a period of two years, unless extended for a longer term. As CSO, he will report directly to the Board and focus on assisting the successor CEO to transition into his or her new position and perform such services as may be reasonably requested by the Board. Mr. Potter will be eligible for: (a) an annual bonus under the Bonus Plan so long as he continues as CEO; (b) equity awards; and (c) continued participation in the Company's benefit plans and such other programs as the Company provides for its employees. At the end of Mr. Potter's service as CSO, he will receive a payment of \$765,000 in exchange for two-year non-competition and non-solicitation covenants.

Under the terms of their Key Executive Agreements, Messrs. Larsson, Martin, Mierzwa and Waite are each to receive a minimum base salary of \$350,000, \$450,000, \$350,000, and \$405,000, respectively, which amounts are not subject to an automatic increase. As discussed in the Nominating and Compensation Committee Report on Executive Compensation, the salaries of the Named Executive Officers are determined annually by the Nominating and Compensation Committee.

Bonuses are not payable under the Key Executive Agreements unless the Company achieves a minimum threshold of its performance targets. Mr. Potter's bonus is subject to a maximum of 200% of his base salary. For fiscal 2004, Messrs. Martin, Mierzwa and Waite's bonuses were subject to a maximum of 120% of their respective base salaries, and Mr. Larsson's bonus was subject to a maximum of 100% of his base salary. The Key Executive Agreements require that the key executive devote his full business time to the affairs of the Company and prohibit the key executive from competing with the Company during his employment and for a two-year period thereafter, in the case of Messrs. Potter and Bell, and during employment and for a one-year period thereafter, in the case of Messrs. Larsson, Martin, Mierzwa and Waite. The period is reduced to six months for all key executives in the event of termination of employment following a Change of Control, as such term is defined in the Key Executive Agreements.

Under the Key Executive Agreements, each of the key executives' employment may be terminated by the Company for cause, as defined therein. If a key executive is terminated for cause, the Company has no further obligation to pay any compensation or to provide benefits to the key executive. Mr. Potter's 2005 Key Executive Agreement allows the Company to terminate him without cause beginning one year after its effective date. If Mr. Potter is terminated without cause, he will become entitled to receive benefits for two years following his commencement as CSO, the payment for non-competition described above, and a pro-rata bonus for the fiscal year in which the action occurs, if any. Should Messrs. Larsson, Martin, Mierzwa or Waite

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