

BIG LOTS INC
Form 10-K
April 01, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 1, 2014
or

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

For the transition period from _____ to _____

Commission File Number 1-8897

BIG LOTS, INC.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

06-1119097

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

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

(Address of principal executive offices)

43228-5311

(Zip Code)

(614) 278-6800

(Registrant's telephone number, including area code)

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

Title of each class

Common Shares \$0.01 par value

Name of each exchange on which registered

New York Stock Exchange

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

Yesþ Noo

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yeso Noþ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yesþ Noo

Edgar Filing: BIG LOTS INC - Form 10-K

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

☐

Table of Contents

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☐

The aggregate market value of the Common Shares held by non-affiliates of the Registrant (assuming for these purposes that all executive officers and directors are “affiliates” of the Registrant) was \$2,075,281,384 on August 3, 2013, the last business day of the Registrant's most recently completed second fiscal quarter (based on the closing price of the Registrant's Common Shares on such date as reported on the New York Stock Exchange).

The number of the registrant's common shares, \$0.01 par value, outstanding as of March 28, 2014, was 58,152,451.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for its 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

BIG LOTS, INC.
 FORM 10-K
 FOR THE FISCAL YEAR ENDED FEBRUARY 1, 2014

TABLE OF CONTENTS

	Part I	Page
Item 1.	<u>Business</u>	<u>2</u>
Item 1A.	<u>Risk Factors</u>	<u>7</u>
Item 1B.	<u>Unresolved Staff Comments</u>	<u>13</u>
Item 2.	<u>Properties</u>	<u>13</u>
Item 3.	<u>Legal Proceedings</u>	<u>15</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>15</u>
	<u>Supplemental Item. Executive Officers of the Registrant</u>	<u>15</u>
	Part II	
Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>18</u>
Item 6.	<u>Selected Financial Data</u>	<u>20</u>
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>39</u>
Item 8.	<u>Financial Statements and Supplementary Data</u>	<u>40</u>
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>78</u>
Item 9A.	<u>Controls and Procedures</u>	<u>78</u>
Item 9B.	<u>Other Information</u>	<u>79</u>
	Part III	
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>79</u>
Item 11.	<u>Executive Compensation</u>	<u>79</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>79</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>79</u>
Item 14.	<u>Principal Accounting Fees and Services</u>	<u>79</u>
	Part IV	
Item 15.	<u>Exhibits, Financial Statement Schedules</u>	<u>80</u>
	<u>Signatures</u>	<u>83</u>

Table of Contents

Part I

Item 1. Business

The Company

Big Lots, Inc., an Ohio corporation, through its wholly owned subsidiaries (collectively referred to herein as “we,” “us,” and “our” except as used in the reports of our independent registered public accounting firm included in Item 8 of this Annual Report on Form 10-K (“Form 10-K”)), is the largest broadline closeout retailer in the United States of America (“U.S.”) (see the discussion below under the caption “Closeout Retailing”). At February 1, 2014, we operated a total of 1,570 stores in the U.S. and Canada. Our goal is to strengthen and build upon our leadership position in broadline closeout value retailing by providing our customers with great savings on brand-name closeouts and other value-priced merchandise. You can locate us on the Internet at www.biglots.com. The contents of our websites are not part of this report.

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

Fiscal Year	Number of Weeks	Year Begin Date	Year End Date
2014	52	February 2, 2014	January 31, 2015
2013	52	February 3, 2013	February 1, 2014
2012	53	January 29, 2012	February 2, 2013
2011	52	January 30, 2011	January 28, 2012
2010	52	January 31, 2010	January 29, 2011
2009	52	February 1, 2009	January 30, 2010

We manage our retailing business on the basis of two segments: U.S. and Canada. Please refer to the consolidated financial statements and related notes in this Form 10-K for our financial information.

On December 5, 2013, we announced our intention to wind down the operations of Big Lots Canada, Inc., the subsidiary operating our Canadian segment, in the first quarter of 2014 (“Canadian Wind Down”). Please refer to note 13 of the accompanying consolidated financial statements for our additional information regarding the wind down of our Canadian segment.

In our U.S. segment, we evaluate and report overall sales and merchandise performance based on the following key merchandising categories: Food, Consumables, Soft Home, Hard Home, Furniture & Home Décor, Seasonal, and Electronics & Accessories. The Food category includes our beverage & grocery, candy & snacks, and specialty foods departments. The Consumables category includes our health and beauty, plastics, paper, chemical, and pet departments. The Soft Home category includes the fashion bedding, utility bedding, bath, window, decorative textile, and flooring departments. The Hard Home category includes our small appliances, table top, food preparation, stationery, greeting cards, tools, paint, and home maintenance departments. The Furniture & Home Décor category includes our upholstery, mattress, ready-to-assemble, case goods, home décor, and frames departments. The Seasonal category includes our lawn & garden, summer, Christmas, toys, books, sporting goods, and other holiday departments. The Electronics & Accessories category includes the electronics, jewelry, apparel, hosiery, and infant accessories departments. See note 17 to the accompanying consolidated financial statements for the net sales results of our segments and these categories for 2013, 2012, and 2011.

Edgar Filing: BIG LOTS INC - Form 10-K

In May 2001, Big Lots, Inc. was incorporated in Ohio and was the surviving entity in a merger with Consolidated Stores Corporation, a Delaware corporation. By virtue of the merger, Big Lots, Inc. succeeded to all the business, properties, assets, and liabilities of Consolidated Stores Corporation. In July 2011, we acquired 100% of the outstanding shares of Liquidation World Inc. (now known as Big Lots Canada, Inc.).

Our principal executive offices are located at 300 Phillipi Road, Columbus, Ohio 43228, and our telephone number is (614) 278 6800.

Table of Contents

Closeout Retailing

Closeout merchandise generally results from production overruns, packaging changes, discontinued products, order cancellations, liquidations, returns, and other disruptions in the supply chain of manufacturers. We can generally purchase closeout merchandise at lower costs than would be paid by traditional discount retailers, and offer closeout merchandise to our customers at lower prices than those offered by traditional discount retailers. We attempt to maximize the amount of closeout merchandise available in our stores. We work closely with our vendors to obtain brand-name closeout merchandise that is easily recognizable by our customers. In addition to closeout merchandise, we stock many products on a consistent basis that we believe provide strong value to our customers. For net sales and comparable store sales by merchandise category, see the discussion below under the captions “2013 Compared To 2012” and “2012 Compared To 2011” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) of this Form 10-K.

Real Estate

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

	2013	2012	2011	2010	2009
U.S.					
Stores open at the beginning of the year	1,495	1,451	1,398	1,361	1,339
Stores opened during the year	55	87	92	80	52
Stores acquired during the year	—	—	—	—	—
Stores closed during the year	(57)	(43)	(39)	(43)	(30)
Stores open at the end of the year	1,493	1,495	1,451	1,398	1,361
Canada					
Stores open at the beginning of the year	79	82	—	—	—
Stores opened during the year	2	—	—	—	—
Stores acquired during the year	—	—	89	—	—
Stores closed during the year	(4)	(3)	(7)	—	—
Stores open at the end of the year	77	79	82	—	—
Consolidated					
Stores open at the beginning of the year	1,574	1,533	1,398	1,361	1,339
Stores opened during the year	57	87	92	80	52
Stores acquired during the year	—	—	89	—	—
Stores closed during the year	(61)	(46)	(46)	(43)	(30)
Stores open at the end of the year	1,570	1,574	1,533	1,398	1,361

During 2009, the U.S. commercial real estate market softened and, as a result, the availability of space improved and rental rates eased, which enabled us to experience net new store growth from 2009 through 2012. In addition, in 2011, we acquired 89 stores in Canada as a result of our acquisition of Liquidation World Inc. (subsequently named Big Lots Canada, Inc.). During the second half of 2012, we determined that rental rates had begun to stabilize, and in many markets increase, and availability of quality real estate was declining. The combination of these real estate factors, softness in our financial performance, and announced management transition plans led us to slow our net new store growth plans. Furthermore, during the fourth quarter of 2013, we finalized portions of our three-year strategic plan which led to our announcement of the Canadian Wind Down. For additional information about our real estate strategy, see the discussion under the caption “Operating Strategy - Real Estate” in the accompanying MD&A in this Form 10-K.

Table of Contents

The following table details our U.S. stores by state at February 1, 2014:

Alabama	29	Maine	7	Ohio	104
Arizona	40	Maryland	27	Oklahoma	18
Arkansas	12	Massachusetts	20	Oregon	14
California	166	Michigan	48	Pennsylvania	70
Colorado	19	Minnesota	10	Rhode Island	1
Connecticut	14	Mississippi	14	South Carolina	35
Delaware	5	Missouri	28	South Dakota	1
Florida	104	Montana	2	Tennessee	48
Georgia	58	Nebraska	3	Texas	116
Idaho	7	Nevada	13	Utah	10
Illinois	40	New Hampshire	7	Vermont	4
Indiana	46	New Jersey	25	Virginia	41
Iowa	3	New Mexico	12	Washington	27
Kansas	9	New York	63	West Virginia	17
Kentucky	40	North Carolina	74	Wisconsin	14
Louisiana	24	North Dakota	1	Wyoming	2
				District of Columbia	1
				Total stores	1,493
				Number of states	48

Of the 1,493 stores in our U.S. segment, 33% operate in four states: California, Texas, Ohio, and Florida, and net sales from stores in these states represented 35% of our 2013 net sales in our U.S. segment. We have a concentration in these states based on their size, population, and customer base.

The following table details our Canadian stores by province at February 1, 2014:

Alberta	10	New Brunswick	2	Saskatchewan	6
British Columbia	15	Nova Scotia	4		
Manitoba	4	Ontario	36		
				Total stores	77
				Number of provinces	7

As a result of the Canadian Wind Down, all 77 Canadian stores were closed in February 2014.

Associates

At February 1, 2014, we had approximately 38,100 active associates comprised of 13,100 full time and 25,000 part time associates. Of the 38,100 active associates, 36,600 were associates of our U.S. segment and 1,500 were associates of our Canadian segment. Approximately 66% of the associates employed throughout the year are employed on a part time basis. Temporary associates hired during the fall and winter holiday selling season increased the number of associates to a peak of approximately 41,400 in 2013. We consider our relationship with our associates to be good, and we are not a party to any labor agreements.

Table of Contents

Competition

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

Purchasing

An important part of our business is the sourcing and purchasing of quality closeout merchandise directly from manufacturers and other vendors typically at prices below those paid by traditional discount retailers. We believe that we have built strong relationships with many brand-name vendors and our relationships and purchasing power enable us to source merchandise that provides exceptional value to our customers. We have the ability to source and purchase significant quantities of closeout merchandise and to control distribution in accordance with vendor instructions. We believe our sourcing model, along with our strong credit profile, provides a high level of service and convenience to our vendors. We intend to continue to strengthen and deepen our relationships with our top 200 vendors. Our sourcing channels also include bankruptcies, liquidations, and insurance claims. We expect that the unpredictability of the retail and manufacturing environments coupled with what we believe is our significant purchasing power position will continue to support our ability to source quality closeout merchandise at competitive prices.

We compliment our brand-name closeout purchases with direct import and domestically-sourced merchandise, which represents merchandise that our customers expect us to consistently offer in our stores at a significant value savings.

During 2013, we purchased approximately 27% of our merchandise directly from overseas vendors, including approximately 23% from vendors located in China. Additionally, a significant amount of our domestically-purchased merchandise is manufactured abroad. As a result, a significant portion of our merchandise supply is subject to certain risks described in “Item 1A. Risk Factors” of this Form 10-K.

Warehouse and Distribution

The majority of our merchandise offerings are processed for retail sale and distributed to our stores from our regional distribution centers. Our U.S. segment is serviced by regional distribution centers located in Pennsylvania, Ohio, Alabama, Oklahoma, and California. We selected the locations of our U.S. distribution centers in order to minimize transportation costs and the distance from distribution centers to our stores. Our Canadian segment was serviced by regional distribution centers located in British Columbia and Ontario, which were closed during the fourth quarter of 2013 in connection with our Canadian Wind Down. While certain of our merchandise vendors deliver directly to our stores, the large majority of our inventory is staged and delivered from our distribution centers to facilitate prompt and efficient distribution and transportation of merchandise to our stores and help maximize our sales and inventory turnover rate.

In addition to the regional distribution centers that handle merchandise, we operate a warehouse in Ohio that distributes fixtures and supplies to our stores.

For additional information regarding our warehouses and distribution facilities and related initiatives, see the discussion under the caption “Warehouse and Distribution” in “Item 2. Properties” of this Form 10-K.

Advertising and Promotion

Our brand image is an important part of our marketing program. Our principal trademarks, including the Big Lots® family of trademarks, have been registered with the U.S. Patent and Trademark Office. We use a variety of marketing vehicles to promote our brand operations, including television, internet, in-store point-of-purchase, and print media.

Table of Contents

In all markets served by our U.S. stores, we design and distribute printed advertising circulars, through a combination of newspaper insertions and mailings. In 2013, we distributed multi-page circulars constituting 30 weeks of advertising coverage, which was consistent with promotions in multi-page circulars in 2012. We create regional versions of these circulars to tailor our advertising message to market differences caused by product availability, climate, and customer preferences. Another key element of our U.S. marketing efforts is our television campaign which combines elements of strategic branding and promotion. These same elements are also used in most of our other marketing media. Our highly-targeted media placement strategy uses national cable as the foundation of our television advertising. In addition, we use in-store promotional materials, including in store signage, to emphasize special bargains and significant values offered to our customers. As part of our overall strategic planning process coinciding with management transition, plans have been developed to shift a portion of our focus and advertising spend to social and digital media opportunities which began in the fourth quarter of 2013 and will be expanded further in 2014.

Our customer database, which we refer to as the Buzz Club® in the U.S., is an important marketing tool that allows us to communicate in a cost effective manner with our customers, including e-mail delivery of our circulars. In addition to the Buzz Club®, we operate the Buzz Club Rewards® program (“Rewards”), which allows us to send specialized promotions to targeted customer groups with the intention of reinforcing and expanding their desire to shop at our stores. Total advertising expense as a percentage of total net sales was 1.9% in each of 2013, 2012, and 2011.

Seasonality

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

The seasonality of our net sales and related merchandise inventory requirements influences our availability of and demand for cash or access to credit. We historically have drawn upon our credit facility to assist in funding our working capital requirements, which typically peak near the end of our third fiscal quarter. We historically have higher net sales, operating profits, and cash flow provided by operations in the fourth fiscal quarter which allows us to substantially repay our seasonal borrowings. In 2013, our total indebtedness (outstanding borrowings and letters of credit) peaked in November 2013 at approximately \$358 million under our five-year \$700 million unsecured credit facility entered into in July 2011 (“2011 Credit Agreement”). At February 1, 2014, our total indebtedness under the 2011 Credit Agreement was \$82.6 million, which included \$77.0 million in borrowings and \$5.6 million in outstanding letters of credit. We expect that borrowings will vary throughout 2014 depending on various factors, including our seasonal need to acquire merchandise inventory prior to the peak selling season, the timing and amount of sales to our customers, and the cash needs of winding down the operations of our Canadian segment. For a discussion of our sources and uses of funds, see “Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” and the discussion under the caption “Capital Resources and Liquidity” in the accompanying MD&A, in this Form 10-K.

Available Information

Edgar Filing: BIG LOTS INC - Form 10-K

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

In this Form 10-K, we incorporate by reference certain information from parts of our Proxy Statement for our 2014 Annual Meeting of Shareholders (“2014 Proxy Statement”).

Table of Contents

In the “Investor Relations” section of our website (www.biglots.com) under the “Corporate Governance” and “SEC Filings” captions, the following information relating to our corporate governance may be found: Corporate Governance Guidelines; charters of our Board of Directors’ Audit, Compensation, and Nominating/Corporate Governance Committees; and our Public Policy and Environmental Affairs Committee; Code of Business Conduct and Ethics; Code of Ethics for Financial Officers; Chief Executive Officer and Chief Financial Officer certifications related to our SEC filings; the means by which shareholders may communicate with our Board of Directors; and transactions in our securities by our directors and executive officers. The Code of Business Conduct and Ethics applies to all of our associates, including our directors and our principal executive officer, principal financial officer, and principal accounting officer. The Code of Ethics for Financial Professionals applies to our Chief Executive Officer and all other Senior Financial Officers (as that term is defined therein) and contains provisions specifically applicable to the individuals serving in those positions. We intend to post amendments to and waivers from, if any, our Code of Business Conduct and Ethics (to the extent applicable to our directors and executive officers) and our Code of Ethics for Financial Professionals in the “Investor Relations” section of our website (www.biglots.com) under the “Corporate Governance” caption. We will provide any of the foregoing information without charge upon written request to our Corporate Secretary. The contents of our websites are not part of this report.

Item 1A. Risk Factors

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

Our disclosure and analysis in this Form 10-K and in our 2013 Annual Report to Shareholders contain forward-looking statements that set forth anticipated results based on management’s plans and assumptions. From time to time, we also provide forward-looking statements in other materials we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Such statements are commonly identified by using words such as “anticipate,” “estimate,” “expect,” “objective,” “goal,” “project,” “intend,” “plan,” “believe,” “will,” “should,” “may,” “target,” “forecast,” and similar expressions in connection with any discussion of future operating or financial performance. In particular, forward-looking statements include statements relating to future actions, future performance, or results of current and anticipated products, sales efforts, expenses, interest rates, the outcome of contingencies, such as legal proceedings, and financial results.

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

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

The following cautionary discussion of material risks, uncertainties, and assumptions relevant to our businesses describes factors that, individually or in the aggregate, we believe could cause our actual results to differ materially from expected and historical results. Additional risks not presently known to us or that we presently believe to be immaterial also may adversely impact us. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on our business, financial condition, results of operations, and liquidity. Consequently, all of the forward-looking statements are qualified by these cautionary statements, and there

can be no assurance that the results or developments we anticipate will be realized or that they will have the expected effects on our business or operations. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. There can be no assurances that we have correctly and completely identified, assessed, and accounted for all factors that do or may affect our business, financial condition, results of operations, and liquidity. as it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties.

Table of Contents

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

The current economic conditions (including commodity price fluctuations and sustained underemployment) give rise to risks and uncertainties that may adversely affect our capital resources, financial condition, results of operations, and liquidity including, but not limited to the following:

- Fluctuating commodity prices, including but not limited to diesel fuel and other fuels used to generate power by utilities, may affect our gross profit and operating profit margins.

Our expectations regarding the demand for our merchandise may be inaccurate, which could cause us to under buy or over buy certain categories or departments of merchandise, which could result in customer dissatisfaction or require excessive markdowns to sell through the merchandise.

Our customers may experience reduced disposable income due to the implementation of new governmental programs, such as the Affordable Care Act.

The reaction of our competitors to the marketplace may drive our competitors, some of whom are better capitalized than us, to offer significant discounts or promotions on their merchandise, which could negatively affect our sales and profit margins.

If we are unable to successfully execute our operating strategies in our U.S. segment, our operating performance could be significantly impacted.

There is a risk that we will be unable to meet or exceed our operating performance targets and goals in the future if our strategies and initiatives are unsuccessful. From May through the end of 2013, we hired a new Chief Executive Officer and replaced several members of our senior leadership team. Together with our new CEO, the senior leadership team is in the process of developing a strategic plan for 2014 and beyond. Our ability to develop and execute our strategic plan and to execute the business activities associated with our strategic and operating plans, could impact our ability to meet our operating performance targets. See the accompanying MD&A in this Form 10-K for additional information concerning our operating strategy.

If we are unable to effectively and efficiently wind down the operations of our Canadian segment, our operating performance could be impacted more negatively than anticipated.

In 2011, we acquired Liquidation World Inc. in order to penetrate the Canadian retail market. In 2012, we began implementing an operating strategy in Canada similar to that of our U.S. segment. In the fourth quarter of 2013, as part of our strategic planning process under our new management team, we announced our intention to wind down the operations of our Canadian segment as our new senior leadership team and our Board of Directors determined that an orderly wind down would allow us to better focus our financial and management resources on our U.S. segment opportunities that provide a greater likelihood of more attractive long-term financial returns. If we are unable to effectively and efficiently execute our Canadian segment wind down activities, both our estimated costs and expected cash outflows could be negatively impacted (see the discussion under the caption “Critical Accounting Policies and Estimates” in the accompanying MD&A in this Form 10-K for additional information regarding our accounting policies for costs associated with exit or disposal activities).

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

The discount retail industry, which includes both traditional brick and mortar stores and online marketplaces, is highly competitive. As discussed in Item 1 of this Form 10-K, we compete for customers, products, employees, real estate,

and other aspects of our business with a number of other companies. Certain of our competitors operate a larger number of stores and more advanced online selling capabilities than we do. Moreover, some of our competitors also have greater financial, broader distribution (e.g., more stores and a current online presence), marketing, and other resources than us. It is possible that increased competition or improved performance by our competitors may reduce our market share, gross margin, and operating margin, and may materially adversely affect our business and results of operations in other ways.

Table of Contents

If we are unable to compete effectively in the growing online retail marketplace, our business and results of operations may be materially adversely affected.

We are in the early stages of developing our online retailing capability and our online functionality and operations will not be fully implemented until after 2014. With the continued expansion of mobile computing devices, competition from other retailers in the online retail marketplace is expected to increase. Certain of our competitors, and a number of pure online retailers, have established online operations against which we compete for customers and products. It is possible that the increasing competition in the online retail space may reduce our market share, gross margin, and operating margin, and may materially adversely affect our business and results of operations in other ways. Our current strategic planning efforts include the development of an online retailing capability which we intend to use to increase the volume of our total net sales. Development of an online retail marketplace is a complex undertaking and there is no guarantee that the resources we apply to this effort will result in increased revenues or operating performance. If our online retailing initiatives do not meet our customers' expectations, it may reduce their desire to purchase goods from us both online and at brick and mortar stores and may materially adversely affect our business and results of operations.

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

For the closeout merchandise that we source for our business, we have very little control over the supply, design, function, availability, or cost of many of the products that we offer for sale in our stores. Our ability to meet or exceed our operating performance targets depends upon the sufficient availability of closeout merchandise that we can acquire and offer at prices that represent a value to our customers. To the extent that certain of our vendors are better able to manage their inventory levels and reduce the amount of their excess inventory, the amount of closeout merchandise available to us could be materially reduced. Shortages or disruptions in the availability of closeout merchandise of a quality acceptable to our customers and us would likely have a material adverse effect on our sales and gross margin and may result in customer dissatisfaction.

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

Global sourcing of many of the products we sell is an important factor in driving higher operating profit. During 2013, we purchased approximately 27% of our products directly from overseas vendors including 23% from vendors located in China, and a significant amount of our domestically-purchased merchandise is manufactured abroad. Our ability to identify qualified vendors and to access products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced outside of North America. Global sourcing and foreign trade involve numerous factors and uncertainties beyond our control including increased shipping costs, increased import duties, more restrictive quotas, loss of most favored nation trading status, currency and exchange rate fluctuations, work stoppages, transportation delays, economic uncertainties such as inflation, foreign government regulations, political unrest, natural disasters, war, terrorism, trade restrictions (including retaliation by the United States against foreign practices), political instability, the financial stability of vendors, merchandise quality issues, and tariffs. These and other issues affecting our international vendors could materially adversely affect our business and financial performance.

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

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

Table of Contents

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

We must maintain sufficient inventory levels to successfully operate our business. However, we also must seek to avoid accumulating excess inventory to maintain appropriate in-stock levels. We obtain approximately one quarter of our merchandise directly from vendors outside of North America. These foreign vendors often require lengthy advance notice of our requirements in order to be able to supply products in the quantities that we request. This usually requires us to order merchandise and enter into purchase order contracts for the purchase of such merchandise well in advance of the time these products are offered for sale. As a result, we may experience difficulty in responding to a changing retail environment, which makes us vulnerable to changes in price and in consumer preferences. In addition, we attempt to maximize our operating profit and operating efficiency by delivering proper quantities of merchandise to our stores in a timely manner. If we do not accurately anticipate future demand for a particular product or the time it will take to replenish inventory levels, our inventory levels may not be appropriate and our results of operations may be negatively impacted.

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

Our results of operations can be directly impacted by the health of the economy of the United States. Our business and financial performance may be adversely impacted by current and future economic conditions, including factors that may restrict or otherwise negatively impact consumer financing, disposable income levels, unemployment levels, energy costs, interest rates, recession, inflation, the impact of unseasonable weather, natural disasters or terrorist activities and other matters that influence consumer spending. Specifically, our Soft Home, Hard Home, Home Decor & Furniture and Seasonal merchandise categories may be threatened when disposable income levels are negatively impacted by economic conditions. Additionally, the net sales of cyclical product offerings in our Seasonal category may be threatened when we experience extended periods of unseasonable weather. In particular, the economic conditions and weather patterns of four states (Ohio, Texas, California, and Florida) are important as approximately 33% of our current stores in our U.S. segment operate in these states and 35% of our 2013 net sales in our U.S. segment occurred in these states.

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

We are exposed to the risk that new federal or state legislation, including new product safety laws and regulations, may negatively impact our operations and adversely affect our operating performance. Additional changes in product safety legislation or regulations may lead to product recalls and the disposal or write-off of merchandise, as well as fines or penalties and reputational damage. If our merchandise, including food and consumable products, do not meet applicable governmental safety standards or our customers' expectations regarding quality or safety, we could experience lost sales, increased costs and be exposed to legal and reputational risk. Our inability to comply on a timely basis with regulatory requirements, or execute product recalls in a timely manner, could result in fines or penalties which could have a material adverse effect on our financial results. In addition, negative customer perceptions regarding the safety of the products we sell could cause us to lose market share to our competitors. If this occurs, it may be difficult for us to regain lost sales.

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

From time to time, we are involved in lawsuits and regulatory actions, including various collective or class action lawsuits that are brought against us for alleged violations of the Fair Labor Standards Act, state wage and hour laws

and federal securities laws. We also are involved in shareholder derivative lawsuits and investigations concerning our compliance with environmental and hazardous waste regulations. Due to the inherent uncertainties of litigation, we may not be able to accurately determine the impact on us of any future adverse outcome of such proceedings. The ultimate resolution of these matters could have a material adverse impact on our financial condition, results of operations, and liquidity. In addition, regardless of the outcome, these proceedings could result in substantial cost to us and may require us to devote substantial attention and resources to defend ourselves. For a description of certain current legal proceedings, see note 10 to the accompanying consolidated financial statements.

Table of Contents

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

Our insurance coverage is subject to deductibles, self-insured retentions, limits of liability and similar provisions that we believe are prudent based on the dispersion of our operations. However, we may incur certain types of losses that we cannot insure or which we believe are not e