

BIG LOTS INC  
Form 10-K  
April 03, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 3, 2018

or

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

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

Commission File Number 1-8897

BIG LOTS, INC.

(Exact name of registrant as specified in its charter)

Ohio

06-1119097

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

43228-5311

(Address of principal executive offices)

(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

Name of each exchange on which registered

Common Shares \$0.01 par value

New York Stock Exchange

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

Yes No  
☒ ☐

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

Yes No  
☐ ☒

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

Yes No  
☒ ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web  
site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of  
Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that  
the registrant was required to submit and post such files).

Yes No  
☒ ☐

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

☒

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No  
☐ ☒

The aggregate market value of the Common Shares held by non-affiliates of the Registrant (assuming for these purposes that all executive officers and directors are “affiliates” of the Registrant) was \$2,105,403,532 on July 29, 2017, the last business day of the Registrant's most recently completed second fiscal quarter (based on the closing price of the Registrant's Common Shares on such date as reported on the New York Stock Exchange).

The number of the Registrant's common shares, \$0.01 par value, outstanding as of March 30, 2018, was 42,182,744.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for its 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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BIG LOTS, INC.  
FORM 10-K  
FOR THE FISCAL YEAR ENDED FEBRUARY 3, 2018

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## Part I

## Item 1. Business

## The Company

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

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

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

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

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In May 2001, Big Lots, Inc. was incorporated in Ohio and was the surviving entity in a merger with Consolidated Stores Corporation. By virtue of the merger, Big Lots, Inc. succeeded to all the businesses, properties, assets, and liabilities of Consolidated Stores Corporation.

Our principal executive offices are located at 300 Phillipi Road, Columbus, Ohio 43228, and our telephone number is (614) 278 6800. In May 2018, our principal executive offices will have a new address and move to 4900 E. Dublin-Granville Road, Columbus, Ohio 43081.

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## Merchandise

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

## Real Estate

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

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

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

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

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

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

and customer base.

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### Associates

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

### Competition

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

### Purchasing

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

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

### Warehouse and Distribution

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



this facility. Construction began on the new facility in 2017 and we expect the transition to occur in the summer of 2019.

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

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

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### 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, social media, e-mail, in-store point-of-purchase, and print media.

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

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

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

### Seasonality

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



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

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

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

## Available Information

We make available, free of charge, through the “Investor Relations” section of our website ([www.biglots.com](http://www.biglots.com)) under the “SEC Filings” caption, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”). Our filings with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. These filings are also available on the SEC’s website at <http://www.sec.gov> free of charge as soon as reasonably practicable after we have filed or furnished the above referenced reports.

In the “Investor Relations” section of our website ([www.biglots.com](http://www.biglots.com)) under the “Corporate Governance” and “SEC Filings” captions, the following information relating to our corporate governance may be found: Corporate Governance Guidelines; charters of our Board of Directors’ Audit, Compensation, Nominating/Corporate Governance Committees, and our Public Policy and Environmental Affairs Committee; Code of Business Conduct and Ethics; Code of Ethics for Financial Officers; Chief Executive Officer and Chief Financial Officer certifications related to our SEC filings; the means by which shareholders may communicate with our Board of Directors; and transactions in our securities by our directors and executive officers. The Code of Business Conduct and Ethics applies to all of our associates,

including our directors and our principal executive officer, principal financial officer, and principal accounting officer. The Code of Ethics for Financial Professionals applies to our Chief Executive Officer and all other Senior Financial Officers (as that term is defined therein) and contains provisions specifically applicable to the individuals serving in those positions. We intend to satisfy the requirement under Item 5.05 of Form 8-K regarding disclosure of amendments to and waivers from, if any, our Code of Business Conduct and Ethics (to the extent applicable to our directors and executive officers (including our principal executive officer, principal financial officer and principal accounting officer)) and our Code of Ethics for Financial Professionals in the “Investor Relations” section of our website ([www.biglots.com](http://www.biglots.com)) under the “Corporate Governance” caption. We will provide any of the foregoing information without charge upon written request to our Corporate Secretary. The contents of our website are not incorporated into, or otherwise made a part of, this Form 10-K.

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### Item 1A. Risk Factors

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

Our disclosure and analysis in this Form 10-K and in our 2017 Annual Report to Shareholders contain forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, we also provide forward-looking statements in other materials we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events. They do not relate strictly to historical or current facts. Such statements are commonly identified by using words such as "anticipate," "estimate," "expect," "objective," "goal," "project," "intend," "plan," "believe," "will," "should," "may," "target," "forecast," and similar expressions in connection with any discussion of future operating or financial performance. In particular, forward-looking statements include statements relating to future actions, future performance, or results of current and anticipated products, sales efforts, expenses, interest rates, the outcome of contingencies, such as legal proceedings, and financial results.

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

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

The following cautionary discussion of material risks, uncertainties, and assumptions relevant to our businesses describes factors that, individually or in the aggregate, we believe could cause our actual results to differ materially from expected and historical results. Additional risks not presently known to us or that we presently believe to be immaterial also may adversely impact us. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on our business, financial condition, results of operations, and liquidity. Consequently, all of the forward-looking statements are qualified by these cautionary statements, and there can be no assurance that the results or developments we anticipate will be realized or that they will have the expected effects on our business or operations. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. There can be no assurances that we have correctly and completely identified, assessed, and accounted for all factors that do or may affect our business, financial condition, results of operations, and liquidity, as it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties.

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

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

There is a risk that we will be unable to meet or exceed our operating performance targets and goals in the future if our strategies and initiatives are unsuccessful. Our ability to execute the business activities associated with our

operating and strategic plans, particularly as we focus on becoming a community retailer, and effectively adapt our plans to the changing marketplace, could impact our ability to meet our operating performance targets. See the accompanying MD&A in this Form 10-K for additional information concerning our operating strategy.

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

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

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

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

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

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

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

Global sourcing of many of the products we sell is an important factor in driving higher operating profit. During 2017, we purchased approximately 23% of our products directly from overseas vendors, including 19% from vendors located in China, and a significant amount of our domestically-purchased merchandise is manufactured abroad. Our ability to identify qualified vendors and to access products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced outside of the U.S. Global sourcing and foreign trade involve numerous



factors and uncertainties beyond our control including increased shipping costs, increased import duties, more restrictive quotas, loss of most favored nation trading status, currency and exchange rate fluctuations, work stoppages, transportation delays, economic uncertainties such as inflation, foreign government regulations, political unrest, natural disasters, war, terrorism, trade restrictions (including retaliation by the U.S. against foreign practices or by foreign countries against U.S. practices), political instability, the financial stability of vendors, merchandise quality issues, and tariffs. U.S policy on trade restrictions is ever-changing and may result in new laws, regulations or treaties that increase the costs of importing goods and/or limit the scope of available foreign vendors. These and other issues affecting our international vendors could materially adversely affect our business and financial performance.

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

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

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

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

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

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

If we are unable to maintain or upgrade our computer systems or if we are unable to convert to alternate systems in an efficient and timely manner, our operations may be disrupted or become less efficient.

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

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If our information technology or computer systems are damaged or cease to function properly, we may have to make a significant investment to fix or replace them, and we may suffer loss of critical data and interruptions or delays in our operations as a result. Any material interruption experienced by our information technology or computer systems could negatively affect our business and results of operations. Costs and potential interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of our existing systems could disrupt or reduce the efficiency of our business.

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

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

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

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

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

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

From time to time, we are involved in lawsuits and regulatory actions, including various collective, class action or shareholder derivative lawsuits that are brought against us for alleged violations of the Fair Labor Standards Act, state wage and hour laws, sales tax and consumer protection laws, False Claims Act, federal securities laws and environmental and hazardous waste regulations. Due to the inherent uncertainties of litigation, we may not be able to

accurately determine the impact on us of any future adverse outcome of such proceedings. The ultimate resolution of these matters could have a material adverse impact on our financial condition, results of operations, and liquidity. In addition, regardless of the outcome, these proceedings could result in substantial cost to us and may require us to devote substantial attention and resources to defend ourselves. For a description of certain current legal proceedings, see note 10 to the accompanying consolidated financial statements.

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

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

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

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

The loss of key personnel may have a material impact on our future results of operations.

We believe that we benefit substantially from the leadership and experience of our senior executives. The loss of services of these individuals could have a material adverse impact on our business. Competition for key personnel in the retail industry is intense, and our future success will depend on our ability to recruit, train, and retain our senior executives and other qualified personnel.

If we are unable to retain existing and secure suitable new store locations under favorable lease terms, our financial performance may be negatively affected.

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

Our inability to comply with the terms of the 2011 Credit Agreement may have a material adverse effect on our capital resources, financial condition, results of operations, and liquidity.

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

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A significant decline in our operating profit and taxable income may impair our ability to realize the value of our long-lived assets and deferred tax assets.

We are required by accounting rules to periodically assess our property and equipment and deferred tax assets for impairment and recognize an impairment loss or valuation charge, if necessary. In performing these assessments, we use our historical financial performance to determine whether we have potential impairments or valuation concerns and as evidence to support our assumptions about future financial performance. A significant decline in our financial performance could negatively affect the results of our assessments of the recoverability of our property and equipment and our deferred tax assets and trigger the impairment of these assets. Impairment or valuation charges taken against property and equipment and deferred tax assets could be material and could have a material adverse impact on our capital resources, financial condition, results of operations, and liquidity (see the discussion under the caption “Critical Accounting Policies and Estimates” in the accompanying MD&A in this Form 10-K for additional information regarding our accounting policies for long-lived assets and income taxes).

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

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

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

• Changes in governmental laws and regulations, including matters related to taxation;

• A downgrade in our credit rating could negatively affect our ability to access capital or could increase our borrowing costs;

• Events or circumstances could occur which could create bad publicity for us or for types of merchandise offered in our stores which may negatively impact our business results including our sales;

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

• Infringement of our intellectual property, including the Big Lots trademarks, could dilute their value; and

• Other risks described from time to time in our filings with the SEC.

### Item 1B. Unresolved Staff Comments

None.



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## Item 2. Properties

## Retail Operations

All of our stores are located in the U.S., predominantly in strip shopping centers, and have an average store size of approximately 31,500 square feet, of which an average of 22,200 is selling square feet. For additional information about the properties in our retail operations, see the discussion under the caption “Real Estate” in “Item 1. Business” and under the caption “Real Estate” in MD&A in this Form 10-K.

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

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

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

Store leases generally obligate us for fixed monthly rental payments plus the payment, in most cases, of our applicable portion of real estate taxes, common area maintenance costs (“CAM”), and property insurance. Some leases require the payment of a percentage of sales in addition to minimum rent. Such payments generally are required only when sales exceed a specified level. Our typical store lease is for an initial minimum term of five to ten years with multiple five-year renewal options. Forty-eight store leases have sales termination clauses that allow us to exit the location at our option if we do not achieve certain sales volume results.

The following table summarizes the number of store lease expirations in each of the next five fiscal years and the total thereafter. As stated above, many of our store leases have renewal options. The table also includes the number of leases that are scheduled to expire each year that do not have a renewal option. The table includes leases for stores with more than one lease and leases for stores not yet open and excludes 7 month-to-month leases and 53 owned locations.

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



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## Warehouse and Distribution

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

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

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

## Corporate Office

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

## Item 3. Legal Proceedings

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

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

## Item 4. Mine Safety Disclosures

None.

## Supplemental Item. Executive Officers of the Registrant

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

| Name             | Age | Offices Held                          | Officer Since |
|------------------|-----|---------------------------------------|---------------|
| David J. Campisi | 62  | Chief Executive Officer and President | 2013          |

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|                       |    |                                                                                    |      |
|-----------------------|----|------------------------------------------------------------------------------------|------|
| Lisa M. Bachmann      | 56 | Executive Vice President, Chief Merchandising and Operating Officer                | 2002 |
| Timothy A. Johnson    | 50 | Executive Vice President, Chief Administrative Officer and Chief Financial Officer | 2004 |
| Michael A. Schlonsky  | 51 | Executive Vice President, Human Resources and Store Operations                     | 2000 |
| Stephen M. Haffer     | 54 | Senior Vice President, Chief Customer Officer                                      | 2018 |
| Ronald A. Robins, Jr. | 54 | Senior Vice President, General Counsel and Corporate Secretary                     | 2015 |

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

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

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

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

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

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

Abercrombie & Fitch Co., an apparel retailer.

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## Part II

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

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

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

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

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

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

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

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

(In thousands, except price per share data)

| Period | (a) Total<br>Number of<br>Shares<br>Purchased<br>(1) | (b) Average<br>Price<br>Paid per<br>Share (1) | (c) Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or | (d) Approximate<br>Dollar Value<br>of Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or |
|--------|------------------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
|--------|------------------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|

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|                                       |   |          | Programs | Programs |   |
|---------------------------------------|---|----------|----------|----------|---|
| October 29, 2017 - November 25, 2017  | — | \$ 53.88 | —        | \$       | — |
| November 26, 2017 - December 23, 2017 | — | 54.10    | —        | —        |   |
| December 24, 2017 - February 3, 2018  | — | 57.37    | —        | —        |   |
| Total                                 | — | \$ 54.78 | —        | \$       | — |



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

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

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

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

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

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## Item 6. Selected Financial Data

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

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

- (a) The period presented is comprised of 52 weeks.
- (b) The period presented is comprised of 53 weeks.

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

## Overview

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

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

## Operating Results Summary

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

Net sales increased \$70.5 million, or 1.4%.

Comparable store sales for stores open at least fifteen months, including e-commerce, increased \$18.9 million, or 0.4%.

Gross margin dollars increased \$43.0 million with a 20 basis point increase in gross margin rate to 40.6% of sales.

Selling and administrative expenses decreased \$7.0 million. As a percentage of net sales, selling and administrative expenses decreased 60 basis points to 32.7% of net sales.

Operating profit rate increased 90 basis points to 5.7%.

Diluted earnings per share increased 31.9% to \$4.38 per share, compared to \$3.32 per share in 2016.

Our return on invested capital increased to 22.9% from 19.0%.

Inventory of \$872.8 million represented a \$14.1 million increase, or 1.6%, from 2016.

We acquired approximately 3.1 million of our outstanding common shares for \$150.0 million, under our 2017

Repurchase Program (as defined below in "Capital Resources and Liquidity"), at a weighted average price of \$48.04 per share.

We declared and paid four quarterly cash dividends in the amount of \$0.25 per common share, for a total paid amount of approximately \$44.7 million.

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

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



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

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

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

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

## Operating Strategy

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

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

Earnings per diluted share to be \$4.75 to \$4.95.

Comparable store sales increase in the low single digits.

Opening 30 new stores and closing 40 stores.

Cash flow (operating activities less capital expenditures) of approximately \$120 to \$130 million.

Cash returned to shareholders of approximately \$150 million, through our quarterly dividend program and the 2018 Repurchase Program.

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

## Merchandising

We intend to achieve our goal of exceeding Jennifer’s expectations by offering quality product assortments and friendly solutions that align with our understanding of her hidden needs. We are committed to providing Jennifer products with high levels of QBFV at a reliable value. Our Edit to Amplify strategy evaluates our product mix using the separate components of “Edit” and “Amplify.” The “Edit” component focuses on downsizing, or potentially eliminating, those departments within our merchandise categories and product offerings that we believe Jennifer does not prioritize or where we believe we do not maintain a competitive advantage. The “Amplify” component enhances the assortment of

those merchandise categories and product offerings that we believe are important to Jennifer’s shopping experience, and in which we believe we have a competitive advantage. We continue to enhance the “Amplify” component of our strategy and have narrowed our focus to internally define our merchandise categories as “ownable” or “winnable.” An “ownable” merchandise category is one where we believe Jennifer views us as a destination to shop for a tasteful assortment of products and affordable solutions. We believe that our value proposition and in-store execution differentiates us from the competition in our “ownable” categories. A “winnable” merchandise category is one where we believe the reliable value of our focused, trend-right assortment and/or closeout merchandise differentiates us from the competition when Jennifer shops for these key product offerings. We believe that our Furniture, Seasonal, Soft Home, Food, and Consumables merchandise categories are “ownable” or “winnable” and align our business with how our core customer shops our stores, while our Hard Home and Electronics, Toys, & Accessories merchandise categories provide convenient adjacencies to our “ownable” or “winnable” categories.

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

Our Furniture category primarily focuses on our core customer’s home furnishing needs, such as upholstery, mattresses, case goods, and ready-to-assemble. In Furniture, we believe our competitive advantage is attributable to our sourcing relationships, our in-store availability, and everyday value offerings. A significant majority of our offerings in this category consists of replenishable products sourced either from recognized brand-name manufacturers or sold under our own brands. Our long-standing relationships with certain brand-name manufacturers, most notably in our mattresses and upholstery departments, allow us to work directly with them to create product offerings specifically for our stores, which enables us to provide a high-quality product at a competitive price. Additionally, we believe our “buy today, take home today” practice of carrying in-stock inventory of our core furniture offerings, which allows Jennifer to take home her purchase at the end of her shopping experience, positively differentiates us from our competition. We encourage Jennifer to shop in store by allowing her to touch and feel the quality and comfort of our products. We believe that offering a focused assortment, which is displayed in furniture vignettes, provides Jennifer a solution for decorating her home when combined with our home decor offerings.

Our Seasonal category is “ownable” in our patio furniture, gazebos, and Christmas trim departments. We believe we have a competitive advantage in this category by creating trend-right products with strong value proposition in our own brands. We believe our in-store shopping experience differentiates us from the competition. We have a large selection of samples assembled and displayed throughout the seasonal section of our store and have packaged the box stock so that it is very easy for Jennifer to purchase and take home. Much of this merchandise is sourced on an import basis, which allows us to maintain our competitive pricing. Additionally, our Seasonal category offers a mix of departments / products that complement her outdoor experience and holiday decorating desires. We continue to work with our vendors to expand our assortment to respond to Jennifer's evolving wants and needs.

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

Our Soft Home category is considered a “winnable” category, but has the potential to be an “ownable” category in areas such as bedding, bath, home fashion, and accents. Over the past few years, we have enhanced our assortment in Soft Home by allocating more selling space to the category to support a wider range of replenishable, fashion-based products. Our competitive advantage in Soft Home is centered around (1) a trend-right, focused assortment with improved quality and perceived value; and (2) our ability to outfit Jennifer’s home with the décor that compliments an in-store furniture purchase. We have worked to develop a “solutions” approach when combining our Soft Home offerings with our Furniture and Seasonal categories through our cross-merchandising efforts on color palette coordination. This helps Jennifer envision how the product can work in her home and enhances our brand image.

Our Food and Consumables categories focus primarily on catering to Jennifer's daily essentials, or “need, use, buy most” items, by providing reliable value and consistency of product offerings. We believe we possess a competitive advantage in the Food and Consumables categories based on our sourcing capabilities for closeout merchandise. Manufacturers and vendors have closeout merchandise for a variety of different reasons, including other retailers canceling orders or going out of business, production overruns, or marketing or packaging changes. We believe our vendor relationships, along with our size and financial strength, afford us these opportunities. To supplement our closeout business, we have focused on improving and expanding our “never out” product assortment to provide more consistency in those areas where Jennifer desires consistently available product offerings. We have added top brands to our “never out” programs in both Food and Consumables and believe our assortment and value proposition will continue to differentiate us in this highly competitive industry.

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

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

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

## Marketing

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

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

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

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

## Shopping Experience

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

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

Showcasing our “ownable” and “winnable” merchandise categories by moving our Furniture department to the front center of the prototype store with Seasonal and Soft Home on either side to improve the coordination of our home decorating solutions. We moved Food and Consumables to the back of the prototype store, while keeping them visible with clear sight lines from the entrance of the store. We have also added color coordinated way-finding signage to help Jennifer navigate our stores.

Creating a warm and personalized tone throughout the store through improved lighting, new flooring, softening the colors on our walls, and greeting Jennifer with a “Hello” wall as she enters the store. We increased the length of our check-out counter and removed signage and clutter to make checking out more friendly and efficient. Additionally, we have added furniture vignettes and incorporated lifestyle photography to provide visual solutions for Jennifer.

- Highlighting our focus on the community with a “connect with the community” board that highlights local events and support. The wall behind the check out counters thanks Jennifer for shopping her community Big Lots. We personalized the signage throughout the store and back room to reflect our friendly and community-oriented values.

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

## Real Estate

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

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



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## 2017 COMPARED TO 2016

## Net Sales

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

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

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

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

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

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

The positive comps in our Seasonal, Soft Home, and Furniture merchandise categories were partially offset by negative comps in our Consumables, Food, Hard Home and Electronics, Toys, & Accessories merchandise categories: Consumables experienced a slight decrease in comps in numerous departments due to the timing of closeout inventory purchases, which was partially offset by positive comps in our health, beauty, and cosmetics department due to the introduction of an everyday, branded product program and space expansions in our bath / body wash and over-the-counter / nutritional health departments.

The Food category experienced decreased net sales and comps due to product mix imbalances, particularly in our snacks and dry goods, and a highly competitive marketplace. We invested in growing our Food inventory position from the beginning of the year to address these imbalances and in improving our assortment of “never out” products. The negative comps and decreased net sales in Hard Home and Electronics, Toys, & Accessories resulted from an intentionally narrowed merchandise assortment.

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

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### Gross Margin

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

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

### Selling and Administrative Expenses

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

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

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





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### Depreciation Expense

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

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

### Operating Profit

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

### Interest Expense

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

### Other Income (Expense)

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

### Income Taxes

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

- The net excess tax benefits associated with settlement of share-based payment awards due to the adoption of ASU 2016-09;

- The lower rate on 2017 current taxable income due to enactment of federal legislation on December 22, 2017 commonly referred to as the Tax Cut and Jobs Act (“TCJA”) that resulted in a lower blended 2017 rate (prorated based on a January 1, 2018 effective date for the rate reduction); and

- A decrease in the nondeductible expenses.

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



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## 2016 COMPARED TO 2015

## Net Sales

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

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

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

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

The Furniture category experienced positive net sales and comps during 2016, primarily driven by strength in our mattress, case goods, and upholstery departments, which were positively impacted by an expansion of allocated square footage in approximately 50% of our stores during the first quarter of 2016, the performance of our Easy Leasing lease-to-own program, and the introduction of a third party, private label credit card offering.

Soft Home experienced increases in net sales and comps which were primarily driven by continued broad-based improvement in the product assortment, quality and perceived value by our customers.

The positive net sales and comps in our Seasonal category were driven by strength in our lawn & garden and summer departments. The strength in our lawn & garden and summer departments was primarily a result of improved product assortment and a favorable weather pattern in the first quarter of 2016 as compared to the first quarter of 2015, which experienced an extended winter.

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

The Consumables category experienced slightly negative comps and negative net sales, driven by negative comps in our paper department, due to fewer closeout opportunities. This was partially offset by positive comps in our pet department where we introduced an exclusive label offering in 2015 that has continued to grow, coupled with positive performance in our health, beauty, and cosmetics department due to the introduction of an everyday, branded product program.

The Food category experienced a slight decrease in net sales and comps due to merchandising execution, such as product mix imbalances, and the timing of closeout inventory purchases.

The negative net sales and comps in Electronics, Toys, & Accessories were a result of a reduced product offerings from our “edit” activities in the electronics department, as we continue to refine our understanding of where we can be successful in this category.

Hard Home experienced negative net sales and comps as a result of an intentionally narrowed assortment, primarily from a reduction in allocated space executed in the first quarter of 2016.

## Gross Margin

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

Table of Contents**Selling and Administrative Expenses**

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

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

**Depreciation Expense**

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

**Operating Profit**

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

**Interest Expense**

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

**Other Income (Expense)**

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

#### Income Taxes

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

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### Capital Resources and Liquidity

On July 22, 2011, we entered into a \$700 million five-year unsecured credit facility. On May 28, 2015, we entered into a second amendment of the credit facility that among other things extended its term to May 30, 2020 (as amended, the “2011 Credit Agreement”). In connection with our original entry into the 2011 Credit Agreement, we paid bank fees and other expenses in the aggregate amount of \$3.0 million, which are being amortized over the term of the agreement. In connection with the second amendment of the 2011 Credit Agreement, we paid bank fees and other expenses in the amount of \$0.8 million, which are being amortized over the term of the agreement. Borrowings under the 2011 Credit Agreement are available for general corporate purposes and working capital. The 2011 Credit Agreement includes a \$30 million swing loan sublimit and a \$150 million letter of credit sublimit. The interest rates, pricing and fees under the 2011 Credit Agreement fluctuate based on our debt rating. The 2011 Credit Agreement allows us to select our interest rate for each borrowing from multiple interest rate options. The interest rate options are generally derived from the prime rate or LIBOR. We may prepay revolving loans made under the 2011 Credit Agreement. The 2011 Credit Agreement contains financial and other covenants, including, but not limited to, limitations on indebtedness, liens and investments, as well as the maintenance of two financial ratios – a leverage ratio and a fixed charge coverage ratio. Additionally, we are subject to cross-default provisions associated with the Synthetic Lease. A violation of any of the covenants could result in a default under the 2011 Credit Agreement that would permit the lenders to restrict our ability to further access the 2011 Credit Agreement for loans and letters of credit and require the immediate repayment of any outstanding loans under the 2011 Credit Agreement. At February 3, 2018, we were in compliance with the covenants of the 2011 Credit Agreement.

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

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

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



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

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

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

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

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

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

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

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

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

of \$6.2 million.

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

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## Contractual Obligations

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

Payments Due by Period <sup>(1)</sup>

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

The disclosure of contractual obligations in this table is based on assumptions and estimates that we believe to be reasonable as of the date of this report. Those assumptions and estimates may prove to be inaccurate; consequently, the amounts provided in the table may differ materially from those amounts that we ultimately incur. Variables that may cause the stated amounts to vary from the amounts actually incurred include, but are not limited to: the termination of a contractual obligation prior to its stated or anticipated expiration; fees or damages incurred as a result of the premature termination or breach of a contractual obligation; the acquisition of more or less services or goods under a contractual obligation than are anticipated by us as of the date of this report; fluctuations in third party fees, governmental charges, or market rates that we are obligated to pay under contracts we have with certain vendors; and the exercise of renewal options under, or the automatic renewal of, contracts that provide for the same.

Obligations under the bank credit facility consist of the borrowings outstanding under the 2011 Credit Agreement, and the associated accrued interest of \$0.3 million. In addition, we had outstanding letters of credit totaling \$59.6 million at February 3, 2018. Approximately \$57.6 million of the outstanding letters of credit represent stand-by letters of credit and we do not expect to meet the conditions requiring significant cash payments on these letters of credit; accordingly, they have been excluded from this table. For a further discussion, see note 3 to the accompanying consolidated financial statements. The remaining \$2.0 million of outstanding letters of credit represent commercial letters of credit whereby the related obligation is included in the purchase obligation.

Operating lease obligations include, among other items, leases for retail stores, offices, and certain computer and other business equipment. The future minimum commitments for retail store and office operating leases are \$1,118.8 million. For a further discussion of leases, see note 5 to the accompanying consolidated financial statements. Many of the store lease obligations require us to pay for our applicable portion of CAM, real estate taxes, and property insurance. In connection with our store lease obligations, we estimated that future obligations for CAM, real estate taxes, and property insurance were \$293.4 million at February 3, 2018. We have made certain assumptions and estimates in order to account for our contractual obligations relative to CAM, real estate taxes, and property insurance. Those assumptions and estimates include, but are not limited to: use of historical data to estimate our future obligations; calculation of our obligations based on comparable store averages where no historical data is available for a particular leasehold; and assumptions related to average expected increases over historical data.

For purposes of the lease and purchase obligation disclosures, we have assumed that we will make all payments scheduled or reasonably estimated to be made under those obligations that have a determinable expiration date, and we disregarded the possibility that such obligations may be prematurely terminated or extended, whether

automatically by the terms of the obligation or by agreement between us and the counterparty, due to the speculative nature of premature termination or extension. Where an operating lease or purchase obligation is subject to a month-to-month term or another automatically renewing term, we included in the table our minimum commitment under such obligation, such as one month in the case of a month-to-month obligation and the then-current term in the case of another automatically renewing term, due to the uncertainty of future decisions to exercise options to extend or terminate any existing leases.

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Purchase obligations include outstanding purchase orders for merchandise issued in the ordinary course of our business that are valued at \$415.3 million, the entirety of which represents obligations due within one year of February 3, 2018. In addition, we have purchase commitments for future inventory purchases totaling \$11.5 million at February 3, 2018. While we are not required to meet any periodic minimum purchase requirements (5) under this commitment, we have included, for purposes of this tabular disclosure, the value of the purchases that we anticipate making during each of the reported periods as purchases that will count toward our fulfillment of the aggregate obligation. The remaining \$385.3 million of purchase obligations is primarily related to distribution and transportation, information technology, print advertising, energy procurement, and other store security, supply, and maintenance commitments.

Other long-term liabilities include \$33.4 million for obligations related to our nonqualified deferred compensation plan, \$30.9 million for a charitable commitment, \$15.6 million for the Synthetic Lease, and \$2.8 million for unrecognized tax benefits. We have estimated the payments due by period for the nonqualified deferred compensation plan based on an average of historical distributions. We have committed to make a \$40.0 million charitable donation over a 10-year period, and we have a remaining obligation of \$30.9 million over the next nine (6) years. We have entered into the Synthetic Lease for our new distribution center in California. We have included unrecognized tax benefits of \$2.2 million for payments expected in 2017 and \$0.6 million of timing-related income tax uncertainties anticipated to reverse in 2018. Unrecognized tax benefits in the amount of \$14.4 million have been excluded from the table because we are unable to make a reasonably reliable estimate of the timing of future payments.

### Off-Balance Sheet Arrangements

Not applicable.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

### Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market using the average cost retail inventory method. Market is determined based on the estimated net realizable value, which generally is the merchandise selling price at

or near the end of the reporting period. The average cost retail inventory method requires management to make judgments and contains estimates, such as the amount and timing of markdowns to clear slow-moving inventory and the estimated allowance for shrinkage, which may impact the ending inventory valuation and prior or future gross margin. These estimates are based on historical experience and current information.

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

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

### Long-Lived Assets

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

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

If our future operating results decline significantly, we may be exposed to impairment losses that could be material (for additional discussion of this risk, see "Item 1A. Risk Factors - A significant decline in our operating profit and taxable income may impair our ability to realize the value of our long-lived assets and deferred tax assets.").

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

### Share-Based Compensation

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



stock units and PSUs may vary materially from the currently amortizing awards.

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

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

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

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

**Income Taxes**

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

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

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

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

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

**Insurance and Insurance-Related Reserves**

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

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

**Lease Accounting**

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

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

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

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

| Calendar Year of Maturity | Diesel Fuel<br>Derivatives |       | Fair Value           |
|---------------------------|----------------------------|-------|----------------------|
|                           | Puts                       | Calls |                      |
|                           |                            |       | Asset<br>(Liability) |
|                           | (Gallons, in<br>thousands) |       | (In<br>thousands)    |

|       |       |       |        |
|-------|-------|-------|--------|
| 2018  | 2,400 | 2,400 | \$ 219 |
| 2019  | 1,200 | 1,200 | 171    |
| 2020  | —     | —     | —      |
| Total | 3,600 | 3,600 | \$ 390 |

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

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

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

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio

April 3, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

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

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

Basis for Opinion

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

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

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio  
April 3, 2018

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



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## BIG LOTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

(In thousands, except per share amounts)

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

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

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BIG LOTS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

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

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

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## BIG LOTS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(In thousands, except par value)

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

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

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## BIG LOTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Shareholders' Equity

(In thousands)

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

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|                                           |        |          |        |               |           |             |      |           |
|-------------------------------------------|--------|----------|--------|---------------|-----------|-------------|------|-----------|
| Share-based employee compensation expense | —      | —        | —      | —             | 27,825    | —           | —    | 27,825    |
| Balance - February 3, 2018                | 41,925 | \$ 1,175 | 75,570 | \$(2,422,396) | \$622,550 | \$2,468,258 | \$ — | \$669,587 |

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

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## BIG LOTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(In thousands)

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

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



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BIG LOTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Description of Business

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

Basis of Presentation

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

Management Estimates

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

Fiscal Periods

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

Segment Reporting

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

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of amounts on deposit with financial institutions, outstanding checks, credit and debit card receivables, and highly liquid investments, including money market funds, which are unrestricted to withdrawal or use and which have an original maturity of three months or less. We review cash and cash equivalent balances on a bank by bank basis in order to identify book overdrafts. Book overdrafts occur when the amount of outstanding checks exceed the cash deposited at a given bank. We reclassify book overdrafts, if any, to accounts



payable on our consolidated balance sheets. Amounts due from banks for credit and debit card transactions are typically settled in less than five days, and at February 3, 2018 and January 28, 2017, totaled \$27.0 million and \$26.9 million, respectively.

#### Investments

Investment securities are classified as available-for-sale, held-to-maturity, or trading at the date of purchase.

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

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### Merchandise Inventories

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

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

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

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

### Payments Received from Vendors

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

### Store Supplies

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

### Property and Equipment - Net

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

follows:

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

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

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

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

### Long-Lived Assets

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

### Closed Store Accounting

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

### Income Taxes

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

We assess the adequacy and need for a valuation allowance for deferred tax assets. In making such assessment, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities,

projected future taxable income, tax planning strategies and recent financial operations. We have established a valuation allowance to reduce our deferred tax assets to the balance that is more likely than not to be realized.

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

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

### Pension

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

### Insurance and Insurance-Related Reserves

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

### Fair Value of Financial Instruments

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

Level 1, defined as observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2, defined as observable inputs other than Level 1 inputs. These include quoted prices for similar assets or liabilities in an active market, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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

#### Commitments and Contingencies

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

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### Revenue Recognition

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

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

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

### Cost of Sales

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

### Selling and Administrative Expenses

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

### Rent Expense

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

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



amounts we have recorded on our books.

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

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### Advertising Expense

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

### Store Pre-opening Costs

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

### Share-Based Compensation

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

### Non-vested Restricted Stock Awards

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

### Non-vested Restricted Stock Units

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

### Performance Share Units

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

### CEO Performance Share Units

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

### Stock Options

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

doing so at that time. The risk-free rate was based on U.S. Treasury security yields at the time of the grant. The expected life was determined from the binomial model, which incorporates exercise and post-vesting forfeiture assumptions based on analysis of historical data.

#### Earnings per Share

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

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## Derivative Instruments

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

## Other Comprehensive Income

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

## Supplemental Cash Flow Disclosures

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

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

## Reclassifications

## Merchandise Categories

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

## Recent Accounting Pronouncements

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

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

early adopt this standard.

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## Recently Adopted Accounting Standards

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

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

## Subsequent Events

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

## NOTE 2 – PROPERTY AND EQUIPMENT - NET

Property and equipment - net consist of:

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

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

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

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

store impairment review. In 2015, we wrote down the value of long-lived assets at two stores identified as part of our annual store impairment review.

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

### NOTE 3 – BANK CREDIT FACILITY

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

Borrowings under the 2011 Credit Agreement are available for general corporate purposes and working capital. The 2011 Credit Agreement includes a \$30 million swing loan sublimit and a \$150 million letter of credit sublimit. The interest rates, pricing and fees under the 2011 Credit Agreement fluctuate based on our debt rating. The 2011 Credit Agreement allows us to select our interest rate for each borrowing from multiple interest rate options. The interest rate options are generally derived from the prime rate or LIBOR. We may prepay revolving loans made under the 2011 Credit Agreement. The 2011 Credit Agreement contains financial and other covenants, including, but not limited to, limitations on indebtedness, liens and investments, as well as the maintenance of two financial ratios – a leverage ratio and a fixed charge coverage ratio. A violation of any of the covenants could result in a default under the 2011 Credit Agreement that would permit the lenders to restrict our ability to further access the 2011 Credit Agreement for loans and letters of credit and require the immediate repayment of any outstanding loans under the 2011 Credit Agreement. At February 3, 2018, we had \$199.8 million of borrowings outstanding under the 2011 Credit Agreement and \$5.0 million was committed to outstanding letters of credit, leaving \$495.2 million available under the 2011 Credit Agreement.

### NOTE 4 – FAIR VALUE MEASUREMENTS

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

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





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## NOTE 5 – LEASES

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

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

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

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

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

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

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

## NOTE 6 – SHAREHOLDERS' EQUITY

## Earnings per Share

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

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|                                                                     |      |      |      |
|---------------------------------------------------------------------|------|------|------|
| (In millions)                                                       | 2017 | 2016 | 2015 |
| Antidilutive stock options excluded from dilutive share calculation | —    | —    | 0.1  |

Antidilutive options are excluded from the calculation because they decrease the number of diluted shares outstanding under the treasury stock method. Antidilutive stock options are generally outstanding options where the exercise price per share is greater than the weighted-average market price per share for our common shares for each period. The restricted stock awards, restricted stock units, and PSUs that were antidilutive, as determined under the treasury stock method, were immaterial for all years presented.

A reconciliation of the number of weighted-average common shares outstanding used in the basic and diluted earnings per share computations is as follows:

|                                             |        |        |        |
|---------------------------------------------|--------|--------|--------|
| (In thousands)                              | 2017   | 2016   | 2015   |
| Weighted-average common shares outstanding: |        |        |        |
| Basic                                       | 42,818 | 45,316 | 50,517 |
| Dilutive effect of share-based awards       | 482    | 658    | 447    |
| Diluted                                     | 43,300 | 45,974 | 50,964 |

## Share Repurchase Programs

On February 28, 2017, our Board of Directors authorized a share repurchase program providing for the repurchase of up to \$150 million of our common shares ("2017 Repurchase Program"). The 2017 Repurchase Program was exhausted during the third quarter of 2017. During 2017, we acquired approximately 3.1 million of our outstanding common shares for \$150 million under the 2017 Repurchase Program.

Common shares acquired through repurchase programs are held in treasury at cost and are available to meet obligations under equity compensation plans and for general corporate purposes.

## Dividends

The Company declared and paid cash dividends per common share during the periods presented as follows:

|                | Dividends<br>Per Share | Amount<br>Declared<br>(In<br>thousands) | Amount<br>Paid<br>(In<br>thousands) |
|----------------|------------------------|-----------------------------------------|-------------------------------------|
| 2016:          |                        |                                         |                                     |
| First quarter  | \$ 0.21                | \$ 10,616                               | \$ 10,597                           |
| Second quarter | 0.21                   | 9,674                                   | 9,282                               |
| Third quarter  | 0.21                   | 9,699                                   | 9,290                               |
| Fourth quarter | 0.21                   | 9,760                                   | 9,297                               |
| Total          | \$ 0.84                | \$ 39,749                               | \$ 38,466                           |
| 2017:          |                        |                                         |                                     |
| First quarter  | \$ 0.25                | \$ 11,547                               | \$ 12,683                           |
| Second quarter | 0.25                   | 11,289                                  | 10,872                              |
| Third quarter  | 0.25                   | 11,007                                  | 10,638                              |
| Fourth quarter | 0.25                   | 10,903                                  | 10,478                              |
| Total          | \$ 1.00                | \$ 44,746                               | \$ 44,671                           |

The amount of dividends declared may vary from the amount of dividends paid in a period based on certain instruments with restrictions on payment, including restricted stock awards, restricted stock units, and PSUs. The payment of future dividends will be at the discretion of our Board of Directors and will depend on our financial condition, results of operations, capital requirements, compliance with applicable laws and agreements and any other

factors deemed relevant by our Board of Directors.

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NOTE 7 – SHARE-BASED PLANS

Our shareholders approved the Big Lots 2017 Long-Term Incentive Plan (“2017 LTIP”) in May 2017. The 2017 LTIP authorizes the issuance of incentive and nonqualified stock options, restricted stock, restricted stock units, deferred stock awards, PSUs, stock appreciation rights, cash-based awards, and other share-based awards. We have issued restricted stock units and PSUs under the 2017 LTIP. The number of common shares available for issuance under the 2017 LTIP consists of an initial allocation of 5,500,000 common shares plus any common shares subject to the 1,743,116 outstanding awards as of January 28, 2017 under the Big Lots 2012 Long-Term Incentive Plan (“2012 LTIP”) that, on or after January 28, 2017, cease for any reason to be subject to such awards (other than by reason of exercise or settlement). The Compensation Committee of our Board of Directors (“Committee”), which is charged with administering the 2017 LTIP, has the authority to determine the terms of each award.

Our former equity compensation plan, the 2012 LTIP, approved by our shareholders in May 2012, expired on May 24, 2017. The 2012 LTIP authorized the issuance of incentive and nonqualified stock options, restricted stock, restricted stock units, deferred stock awards, PSUs, stock appreciation rights, cash-based awards, and other share-based awards. We issued nonqualified stock options, restricted stock, restricted stock units, and PSUs under the 2012 LTIP. The Committee, which was charged with administering the 2012 LTIP, had the authority to determine the terms of each award. Nonqualified stock options granted to employees under the 2012 LTIP, the exercise price of which was not less than the fair market value of the underlying common shares on the grant date, generally expire on the earlier of: (1) the seven year term set by the Committee; or (2) one year following termination of employment, death, or disability. The nonqualified stock options generally vest ratably over a four-year period; however, upon a change in control, all awards outstanding automatically vest.

Our other former equity compensation plan, the 2005 LTIP, approved by our shareholders in May 2005, expired on May 16, 2012. The 2005 LTIP authorized the issuance of nonqualified stock options, restricted stock, and other award types. We issued only nonqualified stock options and restricted stock under the 2005 LTIP. The Committee, which was charged with administering the 2005 LTIP, had the authority to determine the terms of each award. Nonqualified stock options granted to employees under the 2005 LTIP, the exercise price of which was not less than the fair market value of the underlying common shares on the grant date, generally expire on the earlier of: (1) the seven year term set by the Committee; or (2) one year following termination of employment, death, or disability. The nonqualified stock options generally vest ratably over a four-year period; however, upon a change in control, all awards outstanding automatically vest.

Share-based compensation expense was \$27.8 million, \$33.0 million and \$13.5 million in 2017, 2016, and 2015, respectively.

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## Non-vested Restricted Stock

The following table summarizes the non-vested restricted stock awards and restricted stock units activity for fiscal years 2015, 2016, and 2017:

|                                                             | Number<br>of Shares | Weighted<br>Average<br>Grant-Date<br>Fair Value<br>Per Share |
|-------------------------------------------------------------|---------------------|--------------------------------------------------------------|
| Outstanding non-vested restricted stock at January 31, 2015 | 744,805             | \$ 38.13                                                     |
| Granted                                                     | 217,767             | 49.00                                                        |
| Vested                                                      | (128,140)           | 38.42                                                        |
| Forfeited                                                   | (49,283)            | 40.28                                                        |
| Outstanding non-vested restricted stock at January 30, 2016 | 785,149             | \$ 40.96                                                     |
| Granted                                                     | 261,792             | 45.62                                                        |
| Vested                                                      | (252,156)           | 42.03                                                        |
| Forfeited                                                   | (23,264)            | 43.63                                                        |
| Outstanding non-vested restricted stock at January 28, 2017 | 771,521             | \$ 42.12                                                     |
| Granted                                                     | 205,819             | 51.16                                                        |
| Vested                                                      | (368,408)           | 42.84                                                        |
| Forfeited                                                   | (19,089)            | 44.02                                                        |
| Outstanding non-vested restricted stock at February 3, 2018 | 589,843             | \$ 44.77                                                     |

The non-vested restricted stock units granted in 2015, 2016 and 2017 generally vest, and are expensed, on a ratable basis over three years from the grant date of the award, if certain threshold financial performance objectives are achieved and the grantee remains employed by us through the vesting dates.

The non-vested restricted stock awards granted to employees in 2013 have met the applicable threshold financial performance objective and will vest in 2018.

## Performance Share Units

In 2013, in connection with his appointment as CEO and President, Mr. Campisi was awarded 37,800 PSUs, which vest based on the achievement of share price performance goals and had a weighted average grant-date fair value per share of \$34.68. The PSUs have a contractual term of seven years. In 2014, Mr. Campisi's first two tranches for a total of 25,200 PSUs vested. In 2016, Mr. Campisi's third and final tranche of 12,600 PSUs vested.

In 2015, 2016, and 2017, we issued PSUs to certain members of management, which vest if certain financial performance objectives are achieved over a three-year performance period and the grantee remains employed by us through that performance period. At February 3, 2018, 855,041 non-vested PSUs were outstanding in the aggregate. The financial performance objectives for each fiscal year within the three-year performance period are approved by the Compensation Committee of our Board of Directors during the first quarter of the respective fiscal year.

As a result of the process used to establish the financial performance objectives, we will only meet the requirements of establishing a grant date for the PSUs when we communicate the financial performance objectives for the third fiscal year of the award to the award recipients, which will then trigger the service inception date, the fair value of the awards, and the associated expense recognition period. If we meet the applicable threshold financial performance objectives over the three-year performance period and the grantee remains employed by us through the end of the performance period, the PSUs will vest on the first trading day after we file our Annual Report on Form 10-K for the last fiscal year in the performance period.





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We have begun or expect to begin recognizing expense related to PSUs as follows:

| Issue Year | Outstanding<br>PSUs at<br>February 3,<br>2018 | Actual Grant Date | Expected Valuation (Grant) Date | Actual or Expected<br>Expense Period |
|------------|-----------------------------------------------|-------------------|---------------------------------|--------------------------------------|
| 2015       | 249,324                                       | March 2017        |                                 | Fiscal 2017                          |
| 2016       | 337,421                                       |                   | March 2018                      | Fiscal 2018                          |
| 2017       | 268,296                                       |                   | March 2019                      | Fiscal 2019                          |
| Total      | 855,041                                       |                   |                                 |                                      |

The number of shares to be distributed upon vesting of the PSUs depends on our average performance attained during the three-year performance period as compared to the targets defined by the Compensation Committee, and may result in the distribution of an amount of shares that is greater or less than the number of PSUs granted, as defined in the award agreement. The PSUs issued in 2015 performed above target and more shares will be distributed than initially granted. At February 3, 2018, we estimate the attainment of an average performance that is greater than the targets established for the PSUs issued in 2016. In 2017 and 2016, we recognized \$15.4 million and \$17.5 million, respectively, in share-based compensation expense related to PSUs.

The following table summarizes the activity related to PSUs for fiscal years 2016 and 2017:

|                                      | PSUs, excluding 2013<br>CEO PSUs |                                                              |
|--------------------------------------|----------------------------------|--------------------------------------------------------------|
|                                      | Number<br>of Shares              | Weighted<br>Average<br>Grant-Date<br>Fair Value<br>Per Share |
| Outstanding PSUs at January 30, 2016 | —                                | \$ —                                                         |
| Granted                              | 379,794                          | 41.04                                                        |
| Vested                               | —                                | —                                                            |
| Forfeited                            | (19,437)                         | 41.04                                                        |
| Outstanding PSUs at January 28, 2017 | 360,357                          | \$ 41.04                                                     |
| Granted                              | 259,042                          | 51.49                                                        |
| Vested                               | (360,357)                        | 41.04                                                        |
| Forfeited                            | (9,718)                          | 51.49                                                        |
| Outstanding PSUs at February 3, 2018 | 249,324                          | \$ 51.49                                                     |

#### Board of Directors' Awards

In 2016 and 2015, we granted to each non-employee member of our Board of Directors a restricted stock award. In 2017, we granted (1) the chairman of our Board of Directors an annual restricted stock unit award having a grant date fair value of approximately \$200,000, and (2) the remaining non-employees elected to our Board of Directors at our 2017 Annual Meeting of Shareholders an annual restricted stock unit award having a grant date fair value of approximately \$135,000. These awards vest on the earlier of (1) the trading day immediately preceding the next annual meeting of our shareholders or (2) the death or disability of the grantee. However, the restricted stock units will not vest if the non-employee director ceases to serve on our Board of Directors before either vesting event occurs. Additionally, we allow our non-employee directors to defer all or a portion of their restricted stock unit award and by such election, the non-employee director can defer receipt of the restricted stock units until the earlier of the first to occur; (1) the specified date by the non-employee director in the deferral agreement, (2) the non-employee director's death or disability, or (3) the date the non-employee director ceases to serve as a member of the Board of Directors.



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## Stock Options

The following table summarizes information about our stock options outstanding and exercisable at February 3, 2018:

| Range of Prices | Options Outstanding   |                     |                                         |                                 | Options Exercisable |                                 |
|-----------------|-----------------------|---------------------|-----------------------------------------|---------------------------------|---------------------|---------------------------------|
| Greater Than    | Less Than or Equal to | Options Outstanding | Weighted-Average Remaining Life (Years) | Weighted-Average Exercise Price | Options Exercisable | Weighted-Average Exercise Price |
| \$30.01         | \$40.00               | 163,126             | 2.1                                     | \$ 35.58                        | 163,126             | \$ 35.58                        |
| \$40.01         | \$50.00               | 117,500             | 1.1                                     | 43.85                           | 117,500             | 43.85                           |
|                 |                       | 280,626             | 1.7                                     | \$ 39.04                        | 280,626             | \$ 39.04                        |

A summary of the annual stock option activity for fiscal years 2015, 2016, and 2017 is as follows:

|                                                | Number of Options | Weighted Average Exercise Price Per Share | Weighted Average Remaining Term (years) | Contractual | Aggregate Intrinsic Value (000's) |
|------------------------------------------------|-------------------|-------------------------------------------|-----------------------------------------|-------------|-----------------------------------|
| Outstanding stock options at January 31, 2015  | 1,703,213         | \$ 37.59                                  |                                         |             |                                   |
| Exercised                                      | (450,136)         | )36.17                                    |                                         |             |                                   |
| Forfeited                                      | (78,175)          | )35.84                                    |                                         |             |                                   |
| Outstanding stock options at January 30, 2016  | 1,174,902         | \$ 38.26                                  |                                         |             |                                   |
| Exercised                                      | (572,727)         | )37.81                                    |                                         |             |                                   |
| Forfeited                                      | (12,500)          | )35.83                                    |                                         |             |                                   |
| Outstanding stock options at January 28, 2017  | 589,675           | \$ 38.75                                  |                                         |             |                                   |
| Exercised                                      | (304,049)         | )38.51                                    |                                         |             |                                   |
| Forfeited                                      | (5,000)           | )36.93                                    |                                         |             |                                   |
| Outstanding stock options at February 3, 2018  | 280,626           | \$ 39.04                                  | 1.7                                     |             | \$ 5,247                          |
| Vested or expected to vest at February 3, 2018 | 280,626           | \$ 39.04                                  | 1.7                                     |             | \$ 5,247                          |
| Exercisable at February 3, 2018                | 280,626           | \$ 39.04                                  | 1.7                                     |             | \$ 5,247                          |

The stock options granted in prior years vest in equal amounts on the first four anniversaries of the grant date and have a contractual term of seven years. With the adoption of ASU 2016-09, we have eliminated our annual forfeiture rate assumption.

During 2017, 2016, and 2015, the following activity occurred under our share-based compensation plans:

| (In thousands)                                   | 2017     | 2016     | 2015    |
|--------------------------------------------------|----------|----------|---------|
| Total intrinsic value of stock options exercised | \$4,423  | \$7,392  | \$5,980 |
| Total fair value of restricted stock vested      | \$19,015 | \$11,510 | \$6,259 |
| Total fair value of performance shares vested    | \$21,026 | \$621    | \$—     |

The total unearned compensation cost related to all share-based awards outstanding, excluding PSUs issued in 2016 and 2017, at February 3, 2018 was approximately \$11.0 million. This compensation cost is expected to be recognized through January 2021 based on existing vesting terms with the weighted-average remaining expense recognition period being approximately 1.7 years from February 3, 2018.

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## NOTE 8 – EMPLOYEE BENEFIT PLANS

## Pension Benefits

In prior years, we maintained the Pension Plan and Supplemental Pension Plan covering certain employees whose hire date was on or before April 1, 1994. Benefits under each plan were based on credited years of service and the employee's compensation during the last five years of employment.

On October 31, 2015, our Board of Directors approved amendments to freeze benefits and terminate the Pension Plan. The Pension Plan discontinued accruing benefits on December 31, 2015, and the termination was effective January 31, 2016. On December 2, 2015, our Board of Directors approved amendments to freeze benefits and terminate the Supplemental Pension Plan. The Supplemental Pension Plan discontinued accruing benefits on December 31, 2015, and the termination was effective December 31, 2015. During 2016, we completed the termination proceedings for the Pension Plan, including seeking and receiving a favorable IRS determination letter, conducting a lump sum offering to our active and terminated vested participants, and conducting an insurance placement for the annuity purchasers. Additionally, we funded the Pension Plan and reduced our liability thereunder to zero. In January 2017, we completed the termination proceedings for the Supplemental Pension Plan and paid all accrued balances to participants through lump sum settlements.

In addition, in the fourth quarter of 2015, when we communicated the approved amendments to the participants of the Pension Plan, we informed Pension Plan participants that we would provide for a one-time transition benefit to participants who were actively employed on December 31, 2015. We recorded a charge in selling and administrative expenses for this one-time transition benefit of \$7.0 million, which was contributed to participants' savings plan accounts in 2016.

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

| (In thousands)                                | 2016     | 2015    |
|-----------------------------------------------|----------|---------|
| Service cost - benefits earned in the period  | \$—      | \$1,923 |
| Interest cost on projected benefit obligation | 879      | 2,444   |
| Expected investment return on plan assets     | (1,536)  | (2,628) |
| Amortization of prior service cost            | —        | 4       |
| Amortization of actuarial loss                | 2,241    | 1,817   |
| Curtailment loss                              | —        | 191     |
| Settlement loss                               | 24,483   | 1,912   |
| Net periodic pension cost                     | \$26,067 | \$5,663 |

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

|                                         | 2016 | 2015  |
|-----------------------------------------|------|-------|
| Discount rate                           | 1.2% | 3.3%  |
| Rate of increase in compensation levels | —    | %2.8% |
| Expected long-term rate of return       | 2.8% | 5.2%  |

## Savings Plans

We have a savings plan with a 401(k) deferral feature and a nonqualified deferred compensation plan with a similar deferral feature for eligible employees. We contribute a matching percentage of employee contributions. Our matching contributions are subject to Internal Revenue Service ("IRS") regulations. For 2017, 2016, and 2015, we expensed \$7.7 million, \$6.6 million, and \$6.3 million, respectively, related to our matching contributions. In connection with our nonqualified deferred compensation plan, we had liabilities of \$33.4 million and \$24.4 million at February 3, 2018 and January 28, 2017, respectively, which are recorded in other liabilities.



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## NOTE 9 – INCOME TAXES

On December 22, 2017, the President of the United States signed into law legislation commonly referred to as the Tax Cut and Jobs Act (“TCJA”). The legislation significantly changed U.S. tax law, including permanently lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018 and accelerating tax depreciation for certain assets placed in service after September 27, 2017. Since the rate reduction was effective on January 1, 2018, our 2017 federal statutory tax rate is a blended rate of 33.7%. Also, we estimated the effects of the corporate income tax rate reduction on our net deferred tax assets resulting in the provisional recognition of an additional \$4.5 million of income tax expense in our consolidated statement of operations for 2017.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA. We have recorded the provisional tax impacts of the TCJA on existing current and deferred tax amounts for 2017. The ultimate impact may differ from these provisional amounts due to, among other things, additional analysis, changes in interpretations and assumptions we have made, and additional regulatory guidance that may be issued. The accounting is expected to be complete in the fourth quarter of 2018 in light of the filing of our 2017 U.S. corporate income tax return and anticipated regulatory guidance.

The provision for income taxes was comprised of the following:

| (In thousands)             | 2017      | 2016     | 2015     |
|----------------------------|-----------|----------|----------|
| Current:                   |           |          |          |
| U.S. Federal               | \$63,743  | \$87,521 | \$73,817 |
| U.S. State and local       | 9,201     | 13,122   | 10,783   |
| Total current tax expense  | 72,944    | 100,643  | 84,600   |
| Deferred:                  |           |          |          |
| U.S. Federal               | 28,336    | (7,965)  | (348)    |
| U.S. State and local       | 4,242     | (1,207)  | (275)    |
| Total deferred tax expense | 32,578    | (9,172)  | (623)    |
| Income tax provision       | \$105,522 | \$91,471 | \$83,977 |

Net deferred tax assets fluctuated by items that are not reflected in deferred tax expense in the above table. In 2017, net deferred tax assets increased by \$0.1 million as a result of ASU 2016-09. Net deferred tax assets decreased by \$10.4 million in 2016, and increased by \$0.8 million in 2015, principally from pension-related charges recorded in accumulated other comprehensive loss.

Reconciliation between the statutory federal income tax rate and the effective income tax rate was as follows:

|                                                          | 2017   | 2016   | 2015   |
|----------------------------------------------------------|--------|--------|--------|
| Statutory federal income tax rate                        | 33.7 % | 35.0 % | 35.0 % |
| Effect of:                                               |        |        |        |
| State and local income taxes, net of federal tax benefit | 3.0    | 3.2    | 3.0    |
| Provisional effect of the TCJA                           | 1.5    | —      | —      |
| Work opportunity tax and other employment tax credits    | (1.0)  | (1.1)  | (1.1)  |
| Excess tax benefit from share-based compensation         | (1.3)  | —      | —      |
| Other, net                                               | (0.2)  | 0.3    | 0.1    |
| Effective income tax rate                                | 35.7 % | 37.4 % | 37.0 % |





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In 2017, we adopted ASU 2016-09. Prior to the adoption of ASU 2016-09, differences between the tax deduction ultimately realized from an equity award and the deferred tax asset recognized as compensation cost were generally credited (“excess tax benefits”) or charged (“deficiencies”) to equity. Under ASU 2016-09, all tax effects of share-based compensation, including excess tax benefits and tax deficiencies, are recognized in income tax expense. In 2017, we recognized excess tax benefits which reduced income tax expense by \$4.3 million. Tax benefits of \$0.5 million and \$0.7 million in 2016 and 2015, respectively, were credited directly to additional paid-in capital within shareholders’ equity.

Income tax payments and refunds were as follows:

| (In thousands)               | 2017      | 2016      | 2015     |
|------------------------------|-----------|-----------|----------|
| Income taxes paid            | \$99,693  | \$103,323 | \$56,158 |
| Income taxes refunded (888 ) | (16,187 ) | (818 )    |          |
| Net income taxes paid        | \$98,805  | \$87,136  | \$55,340 |

Deferred taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax, including income tax uncertainties. Significant components of our deferred tax assets and liabilities were as follows:

| (In thousands)                                             | February 3, 2018 | January 28, 2017 |
|------------------------------------------------------------|------------------|------------------|
| Deferred tax assets:                                       |                  |                  |
| Workers’ compensation and other insurance reserves         | \$ 21,106        | \$ 32,194        |
| Accrued rent                                               | 15,292           | 22,259           |
| Compensation related                                       | 14,308           | 39,616           |
| Uniform inventory capitalization                           | 13,591           | 18,648           |
| Depreciation and fixed asset basis differences             | 8,435            | 10,095           |
| State tax credits, net of federal tax benefit              | 4,246            | 3,844            |
| Accrued state taxes                                        | 3,749            | 7,157            |
| Accrued operating liabilities                              | 537              | 2,056            |
| Other                                                      | 11,623           | 17,138           |
| Valuation allowances                                       | (2,311 )         | (2,087 )         |
| Total deferred tax assets                                  | 90,576           | 150,920          |
| Deferred tax liabilities:                                  |                  |                  |
| Accelerated depreciation and fixed asset basis differences | 51,310           | 71,155           |
| Lease construction reimbursements                          | 11,542           | 15,682           |
| Prepaid expenses                                           | 5,559            | 6,553            |
| Workers’ compensation and other insurance reserves         | 2,424            | 3,482            |
| Other                                                      | 5,755            | 7,579            |
| Total deferred tax liabilities                             | 76,590           | 104,451          |
| Net deferred tax assets                                    | \$ 13,986        | \$ 46,469        |

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We have the following income tax loss and credit carryforwards at February 3, 2018 (amounts are shown net of tax excluding the federal income tax effect of the state and local items):

(In thousands)

U.S. State and local:

|                                                |         |                                        |
|------------------------------------------------|---------|----------------------------------------|
| State net operating loss carryforwards         | \$ 17   | Expires fiscal years 2020 through 2025 |
| California enterprise zone credits             | 4,976   | Predominately expires fiscal year 2023 |
| Other state credits                            | 399     | Expires fiscal years through 2025      |
| Total income tax loss and credit carryforwards | \$5,392 |                                        |

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for 2017, 2016, and 2015:

|                                                 |           |           |           |
|-------------------------------------------------|-----------|-----------|-----------|
| (In thousands)                                  | 2017      | 2016      | 2015      |
| Unrecognized tax benefits - beginning of year   | \$ 13,121 | \$ 13,772 | \$ 14,922 |
| Gross increases - tax positions in current year | 361       | 822       | 939       |
| Gross increases - tax positions in prior period | 1,329     | 171       | 872       |
| Gross decreases - tax positions in prior period | (1,385)   | (80)      | (430)     |
| Settlements                                     | (319)     | (236)     | (732)     |
| Lapse of statute of limitations                 | (1,434)   | (1,328)   | (1,799)   |
| Unrecognized tax benefits - end of year         | \$ 11,673 | \$ 13,121 | \$ 13,772 |

At the end of 2017 and 2016, the total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is \$9.2 million and \$8.4 million, respectively, after considering the federal tax benefit of state and local income taxes of \$2.1 million and \$4.1 million, respectively. Unrecognized tax benefits of \$0.6 million and \$0.6 million in 2017 and 2016, respectively, relate to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The uncertain timing items could result in the acceleration of the payment of cash to the taxing authority to an earlier period.

We recognized an expense associated with interest and penalties on unrecognized tax benefits of approximately \$0.1 million, \$0.2 million, and \$0.1 million during 2017, 2016, and 2015, respectively, as a component of income tax expense. The amount of accrued interest and penalties recognized in the accompanying consolidated balance sheets at February 3, 2018 and January 28, 2017 was \$6.1 million and \$6.3 million, respectively.

We are subject to U.S. federal income tax, and income tax of multiple state and local jurisdictions. The statute of limitations for assessments on our federal income tax returns for periods prior to 2014 has lapsed. In addition, the state income tax returns filed by us are subject to examination generally for periods beginning with 2006, although state income tax carryforward attributes generated prior to 2006 and non-filing positions may still be adjusted upon examination. We have various state returns in the process of examination or administrative appeal. After acquiring Canadian operations on July 18, 2011 and prior to dissolution on June 10, 2014, we also were subject to Canadian and provincial taxes. Generally, the time limit for reassessing returns for Canadian and provincial income taxes for periods prior to the short fiscal period ended January 28, 2012 have lapsed.

We have estimated the reasonably possible expected net change in unrecognized tax benefits through February 2, 2019, based on expected cash and noncash settlements or payments of uncertain tax positions and lapses of the applicable statutes of limitations for unrecognized tax benefits. The estimated net decrease in unrecognized tax

benefits for the next 12 months is approximately \$5.0 million. Actual results may differ materially from this estimate.

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NOTE 10 – COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Shareholder and Derivative Matters

On May 21, May 22 and July 2, 2012, three shareholder derivative lawsuits were filed in the U.S. District Court for the Southern District of Ohio against us and certain of our current and former outside directors and executive officers. The lawsuits were consolidated, and, on August 13, 2012, plaintiffs filed a consolidated complaint captioned *In re Big Lots, Inc. Shareholder Litigation*, No. 2:12-cv-00445 (S.D. Ohio) (the “Consolidated Derivative Action”), which generally alleged that the individual defendants traded in our common shares based on material, nonpublic information concerning our guidance for fiscal 2012 and the first quarter of fiscal 2012 and the director defendants failed to suspend our share repurchase program during such trading activity. The consolidated complaint asserted claims under Ohio law for breach of fiduciary duty, unjust enrichment, misappropriation of trade secrets and corporate waste and sought declaratory relief and disgorgement to us of proceeds from any wrongful sales of our common shares, plus attorneys’ fees and expenses.

The defendants filed a motion to dismiss the consolidated complaint, which was granted by the Court in an Opinion and Order dated April 14, 2015, pursuant to which plaintiffs’ claims were all dismissed with prejudice, with the exception of their claim for corporate waste, which was dismissed without prejudice. On May 5, 2015, plaintiffs filed a Motion for Leave to File Verified Consolidated Amended Shareholder Derivative Complaint, which sought to replead the claim for corporate waste that was dismissed without prejudice by the Court, as well as a Motion for Reconsideration and, in the Alternative, for Certification of Question of State Law to the Supreme Court of Ohio. Defendants’ responses to both motions were filed on May 29, 2015. On August 3, 2015, the Court granted Plaintiffs’ Motion for Leave to File Verified Consolidated Amended Shareholder Derivative Complaint, and Plaintiffs filed the amended complaint on the same date, asserting a claim for corporate waste against Jeffrey Berger, Steven Fishman, David Kollat, Brenda Lauderback, Philip Mallott, Russell Solt, and Dennis Tishkoff. On September 30, 2015, defendants filed an answer to the amended complaint.

We received a letter dated January 28, 2013, sent on behalf of a shareholder demanding that our Board of Directors investigate and take action in connection with the allegations made in the derivative and securities lawsuits described here within. The shareholder indicated that he would commence a derivative lawsuit if our Board of Directors failed to take the demanded action. On March 6, 2013, our Board of Directors referred the shareholder’s letter to a committee of independent directors to investigate the matter. That committee, with the assistance of independent outside counsel, investigated the allegations in the shareholder’s demand letter and, on August 28, 2013, reported its findings to our Board of Directors along with its recommendation that the Board reject the shareholder’s demand. Our Board of Directors unanimously accepted the recommendation of the demand investigation committee and, on September 9, 2013, outside counsel for the committee sent a letter to counsel for the shareholder informing the shareholder of the Board’s determination. On October 18, 2013, the shareholder filed a derivative lawsuit captioned *Brosz v. Fishman et al.*, No. 1:13-cv-00753 (S.D. Ohio) (the “Brosz Action”) in the U.S. District Court for the Southern District of Ohio against us and each of the current and former outside directors and executive officers originally named in the 2012 shareholder derivative lawsuit. The plaintiff’s complaint generally alleged that the individual defendants traded in our common shares based on material, nonpublic information concerning our guidance for fiscal 2012 and the first quarter of fiscal 2012 and the director defendants failed to suspend our share repurchase program during such trading activity. The complaint asserted claims under Ohio law for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, corporate waste and misappropriation of trade secrets and sought damages, injunctive relief and disgorgement to us of proceeds from any wrongful sales of our common shares, plus attorneys’ fees and expenses.

The defendants filed a motion to dismiss the complaint, which was granted by the Court in an Opinion and Order dated April 14, 2015, which dismissed the plaintiff’s claims with prejudice with the exception of his claim for corporate waste and his assertion that our Board of Directors wrongfully rejected his demand to take action against the individually named defendants. On May 5, 2015, the Court so ordered the parties’ stipulation, staying plaintiff’s time to

seek leave to amend his complaint in order to make a request to inspect the Company's books and records pursuant to Ohio Revised Code §1701.37, and plaintiff served that request for inspection on May 8, 2015. On August 17, 2015, plaintiff filed an Amended Verified Shareholder Derivative Complaint. On September 30, 2015, defendants moved to dismiss the amended complaint. On December 29, 2016, the Court denied defendants' motion to dismiss the amended complaint and ordered that the Brosz Action be consolidated with the Consolidated Derivative Action.

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On February 10, 2014, a shareholder derivative lawsuit was filed in the Franklin County Common Pleas Court in Columbus, Ohio, captioned Tremblay v. Campisi et al., No. 14CV-02-1421 (Ohio Ct. Com. Pl., Franklin Cnty.) (the “Tremblay Action”), against us and certain of our current and former outside directors and executive officers (David Campisi, Steven Fishman, Joe Cooper, Charles Haubiel, Timothy Johnson, Robert Claxton, John Martin, Norman Rankin, Paul Schroeder, Robert Segal, Steven Smart, David Kollat, Jeffrey Berger, James Chambers, Peter Hayes, Brenda Lauderback, Philip Mallott, Russell Solt, James Tener and Dennis Tishkoff). The plaintiff’s complaint generally alleges that the individual defendants traded in our common shares based on material, nonpublic information concerning our guidance for fiscal 2012 and the first quarter of fiscal 2012 and the director defendants failed to suspend our share repurchase program during such trading activity. The complaint also alleges that we and various individual defendants made false and misleading statements regarding our Canadian operations prior to our announcement on December 5, 2013 that we were exiting the Canadian market. The complaint asserts claims under Ohio law for breach of fiduciary duty, unjust enrichment, waste of corporate assets and misappropriation of insider information and seeks damages, injunctive relief and disgorgement to us of proceeds from any wrongful sales of our common shares, plus attorneys’ fees and expenses. At the parties’ request, the Court stayed this lawsuit until after the judge in the federal derivative lawsuits discussed in the preceding paragraphs ruled on the motions to dismiss pending in those actions. On January 12, 2017, the Tremblay Action was voluntarily dismissed by the plaintiffs, without prejudice to refile.

On August 1, 2016, our Board of Directors passed a resolution creating a special litigation committee (“SLC”) to conduct an independent investigation and determine, in its sole discretion, whether it is in the best interests of the Company to pursue, settle, or seek dismissal of, the claims asserted in the Consolidated Derivative Action, the Brosz Action, and the Tremblay Action. The SLC is composed of three members, each of whom is a director that is not a party to any of the derivative actions and was not a member of the Board until well after the relevant time period. The SLC retained independent counsel and conducted an investigation. On October 20, 2016, the Company filed motions to stay all proceedings in the Consolidated Derivative Action and the Brosz Action pending the completion of the SLC’s investigation. The Court granted the motion to stay all proceedings on December 15, 2016. As noted above, the Brosz action was consolidated with the Consolidated Derivative Action on December 29, 2016, and the Tremblay Action was voluntarily dismissed on January 12, 2017. On May 18, 2017, after concluding its investigation, the SLC filed a motion to dismiss the Consolidated Derivative Action. On May 19, 2017, the Court issued an order providing for discovery and briefing in connection with the SLC’s motion to dismiss and setting a schedule for further litigation of the merits of the lawsuit. On December 14, 2017, the parties entered into a Stipulation and Agreement of Settlement and Plaintiff filed an Unopposed Motion for Preliminary Approval of Derivative Settlement with the Court. That motion remains pending with the Court.

On July 9, 2012, a putative securities class action lawsuit captioned Willis, et al. v. Big Lots, Inc., et al., 2:12-cv-00604 (S.D. Ohio) was filed in the U.S. District Court for the Southern District of Ohio on behalf of persons who acquired our common shares between February 2, 2012 and April 23, 2012. This lawsuit was filed against us, Lisa Bachmann, Mr. Cooper, Mr. Fishman and Mr. Haubiel. The complaint in the putative class action generally alleges that the defendants made statements concerning our financial performance that were false or misleading. The complaint asserts claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 and seeks damages in an unspecified amount, plus attorneys’ fees and expenses. The lead plaintiff filed an amended complaint on April 4, 2013, which added Mr. Johnson as a defendant, removed Ms. Bachmann as a defendant, and extended the putative class period to August 23, 2012. On May 6, 2013, the defendants filed a motion to dismiss the putative class action complaint. On January 21, 2016, the Court granted in part and denied in part the defendants’ motion to dismiss, allowing some claims to move forward. On May 27, 2016, the lead plaintiff moved for class certification (requesting a class period from March 2, 2012 through August 23, 2012) and to appoint class representatives and class counsel. Defendants opposed the motion. On March 17, 2017, the Court granted plaintiffs’ motion, certifying the class and appointing class representatives and class counsel. On March 31, 2017, defendants filed a petition pursuant to Federal Rule of Civil Procedure 23(f) for appeal of the Court’s ruling with the U.S. Court of

Appeals for the Sixth Circuit. Defendant's petition was granted on August 23, 2017, and briefing on the appeal was completed January 12, 2018. On August 28, 2017, defendants filed a motion in the District Court to stay all further proceedings pending the resolution of defendants' appeal of class certification. On September 19, 2017, the District Court granted defendants' motion and stayed all proceedings, except for the exchange of expert reports, pending the resolution of defendants' appeal. Fact discovery in the District Court was substantially completed on May 26, 2017.

We believe that the shareholder derivative and putative class action lawsuits are without merit, and we intend to defend ourselves vigorously against the allegations levied in these lawsuits. While a loss from these lawsuits is reasonably possible, at this time, we cannot reasonably estimate the amount of any loss that may result or whether the lawsuits will have a material impact on our financial statements.

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### California Hazardous Materials Matter

On October 1, 2013, we received a subpoena from the District Attorney for the County of Alameda, State of California, seeking information concerning our handling of hazardous materials and hazardous waste in the State of California. We provided information and cooperated with the authorities from multiple counties and cities in California in connection with this matter. In the first quarter of 2016, we entered into settlement negotiations related to this matter. We settled this matter in the first quarter of 2017.

During the first quarter of 2016, we recorded accruals totaling \$4.7 million associated with pending legal and regulatory matters, including this matter related to hazardous materials and hazardous waste.

### Tabletop Torches Matter

In 2013, we sold certain tabletop torch and citronella products manufactured by third parties. In August 2013, we recalled the tabletop torches and discontinued their sale in our stores. In 2014, we were named as a defendant in a number of lawsuits relating to these products alleging personal injuries suffered as a result of negligent shelving and pairing of the products, product design, manufacturing and marketing defects and/or breach of warranties. Although we believe that we are entitled to indemnification from the third-party manufacturers of the products and the company that tested the tabletop torches for all of the expenses that we have incurred with respect to these matters and that these expenses are covered by our insurance (subject to a \$1 million deductible), in the second quarter of 2015, we (1) determined that our ability to obtain any recovery from the manufacturer of the tabletop torches may be limited because, among other things, the manufacturer has exhausted its applicable insurance coverage, is domiciled outside the United States and has been dissolved by its parent and (2) became engaged in litigation with our excess insurance carrier regarding the scope of our coverage. In the second quarter of 2015, we settled one of the lawsuits and settled another lawsuit in the third quarter of 2015. We settled an additional lawsuit in the first quarter of 2017. In the second quarter of 2017, we reached a settlement with the plaintiff in the final lawsuit. Additionally, we have brought a separate lawsuit in the United States District Court of Massachusetts against the company that tested the tabletop torch and an additional lawsuit in the United States District Court for the Southern District of Ohio against the third-party manufacturers and the company that tested the tabletop torch. In the second quarter of 2017, we reached a settlement in principle with our primary and excess insurance carriers. In the third quarter of 2017, we finalized the settlement with our insurance carriers and collected the associated settlement funds, which resulted in a \$3.0 million gain. In addition, our excess insurance carrier has negotiated a settlement with each of the third-party manufacturers and the company that tested the tabletop torch. All pending actions have now been dismissed. During the second quarter of 2015, we recorded a \$4.5 million charge related to these matters.

### Other Matters

We are involved in other legal actions and claims arising in the ordinary course of business. We currently believe that each such action and claim will be resolved without a material effect on our financial condition, results of operations, or liquidity. However, litigation involves an element of uncertainty. Future developments could cause these actions or claims to have a material effect on our financial condition, results of operations, and liquidity.

We are self-insured for certain losses relating to property, general liability, workers' compensation, and employee medical, dental, and prescription drug benefit claims, a portion of which is paid by employees, and we have purchased stop-loss coverage in order to limit significant exposure in these areas. Accrued insurance liabilities are actuarially determined based on claims filed and estimates of claims incurred but not reported. We use letters of credit, which amounted to \$57.7 million at February 3, 2018, as collateral to back certain of our self-insured losses with our claims administrators.

We have purchase obligations for outstanding purchase orders for merchandise issued in the ordinary course of our business that are valued at \$415.3 million, the entirety of which represents obligations due within one year of February 3, 2018. In addition, we have purchase commitments for future inventory purchases totaling \$11.5 million at



February 3, 2018. We paid \$11.0 million, \$18.2 million, and \$11.3 million related to these commitments during 2017, 2016, and 2015, respectively. We are not required to meet any periodic minimum purchase requirements under this commitment. The term of the commitment extends until the purchase requirement is satisfied. We have additional purchase obligations in the amount of \$385.3 million primarily related to distribution and transportation, information technology, print advertising, energy procurement, and other store security, supply, and maintenance commitments.

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## NOTE 11 – DERIVATIVE INSTRUMENTS

In the first quarter of 2015, our Board of Directors authorized our management to enter into derivative instruments designed to mitigate certain risks; and we entered into collar contracts to mitigate our risk associated with market fluctuations in diesel fuel prices. These contracts are used strictly to limit our risk exposure and not as speculative transactions. Our derivative instruments associated with diesel fuel do not meet the requirements for cash flow hedge accounting. Therefore, our derivative instruments associated with diesel fuel will be marked-to-market to determine their fair value, and the associated gains and losses will be recognized currently in other income (expense) on our consolidated statements of operations.

Our outstanding derivative instrument contracts were comprised of the following:

|                                  |                  |                  |
|----------------------------------|------------------|------------------|
| (In thousands)                   | February 3, 2018 | January 28, 2017 |
| Diesel fuel collars (in gallons) | 3,600            | 4,425            |

The fair value of our outstanding derivative instrument contracts was as follows:

| (In thousands) | Derivative Instrument        | Balance Sheet Location     | Assets<br>(Liabilities) |                  |
|----------------|------------------------------|----------------------------|-------------------------|------------------|
|                |                              |                            | February 3, 2018        | January 28, 2017 |
|                | Diesel fuel collars          | Other current assets       | \$312                   | \$135            |
|                |                              | Other assets               | 262                     | 180              |
|                |                              | Accrued operating expenses | (77 )                   | (1,001 )         |
|                |                              | Other liabilities          | (107 )                  | (322 )           |
|                | Total derivative instruments |                            | \$390                   | \$ (1,008 )      |

The effect of derivative instruments on the consolidated statements of operations was as follows:

| (In thousands) | Derivative Instrument        | Statements of Operations Location | Amount of Gain (Loss) |           |           |
|----------------|------------------------------|-----------------------------------|-----------------------|-----------|-----------|
|                |                              |                                   | 2017                  | 2016      | 2015      |
|                | Diesel fuel collars          |                                   |                       |           |           |
|                | Realized                     | Other income (expense)            | \$(756)               | \$(2,299) | \$(535 )  |
|                | Unrealized                   | Other income (expense)            | 1,398                 | 3,657     | (4,665 )  |
|                | Total derivative instruments |                                   | \$642                 | \$1,358   | \$(5,200) |

The fair values of our derivative instruments are determined using observable inputs from commonly quoted markets. These fair value measurements are classified as Level 2 within the fair value hierarchy.

## NOTE 12 – COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the components of accumulated other comprehensive loss, net of tax, during 2015 and 2016:

| (In thousands)                                                 | 2016       | 2015       |
|----------------------------------------------------------------|------------|------------|
| Beginning of Period                                            | \$(15,977) | \$(14,656) |
| Other comprehensive income before reclassifications            | (185 )     | (3,730 )   |
| Amounts reclassified from accumulated other comprehensive loss | 16,162     | 2,409      |
| Net period change                                              | 15,977     | (1,321 )   |
| End of Period                                                  | —          | (15,977 )  |

The amounts reclassified from accumulated other comprehensive loss associated with our pension plans have been reclassified to selling and administrative expenses in our statements of operations. Please see note 8 to the

consolidated financial statements for further information on our pension plans.

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## NOTE 13 - SALE OF REAL ESTATE

In January 2017, we sold real property in California, on a component of which we operated a store, for \$4.6 million. Based on the terms of the transaction, we recognized a pre-tax gain of \$3.8 million during the fourth quarter of 2016.

## NOTE 14 – BUSINESS SEGMENT DATA

We use the following seven merchandise categories, which match our internal management and reporting of merchandise net sales: Furniture, Seasonal, Soft Home, Food, Consumables, Hard Home, and Electronics, Toys, & Accessories. The Furniture category includes our upholstery, mattress, case goods, and ready-to-assemble departments. The Seasonal category includes our Christmas trim, lawn & garden, summer, and other holiday departments. The Soft Home category includes our fashion bedding, utility bedding, bath, window, decorative textile, home organization, area rugs, home décor, and frames departments. The Food category includes our beverage & grocery, candy & snacks, and specialty foods departments. The Consumables category includes our health, beauty and cosmetics, plastics, paper, chemical, and pet departments. The Hard Home category includes our small appliances, table top, food preparation, stationery, greeting cards, and home maintenance departments. The Electronics, Toys, & Accessories category includes our electronics, toys, jewelry, and hosiery departments.

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

The following table presents net sales data by merchandise category:

| (In thousands)                   | 2017        | 2016        | 2015        |
|----------------------------------|-------------|-------------|-------------|
| Furniture                        | \$1,237,022 | \$1,195,365 | \$1,135,757 |
| Food                             | 824,487     | 830,508     | 845,541     |
| Consumables                      | 822,533     | 817,747     | 826,530     |
| Soft Home                        | 789,596     | 750,814     | 718,666     |
| Seasonal                         | 765,907     | 739,106     | 725,238     |
| Hard Home                        | 428,788     | 437,575     | 477,451     |
| Electronics, Toys, & Accessories | 402,647     | 429,324     | 461,399     |
| Net sales                        | \$5,270,980 | \$5,200,439 | \$5,190,582 |

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

Summarized fiscal quarterly financial data for 2017 and 2016 is as follows:

| Fiscal Year 2017                             | First       | Second      | Third       | Fourth      | Year        |
|----------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| (In thousands, except per share amounts) (a) |             |             |             |             |             |
| Net sales                                    | \$1,296,787 | \$1,221,301 | \$1,110,824 | \$1,642,068 | \$5,270,980 |
| Gross margin                                 | 524,275     | 492,500     | 443,626     | 682,041     | 2,142,442   |
| Net income                                   | 51,512      | 29,120      | 4,372       | 104,828     | 189,832     |

Earnings per share:

|         |        |        |        |        |        |
|---------|--------|--------|--------|--------|--------|
| Basic   | \$1.16 | \$0.68 | \$0.10 | \$2.50 | \$4.43 |
| Diluted | 1.15   | 0.67   | 0.10   | 2.46   | 4.38   |

| Fiscal Year 2016                             | First       | Second      | Third       | Fourth      | Year        |
|----------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| (In thousands, except per share amounts) (a) |             |             |             |             |             |
| Net sales                                    | \$1,312,575 | \$1,203,155 | \$1,105,498 | \$1,579,211 | \$5,200,439 |
| Gross margin                                 | 517,681     | 486,423     | 441,992     | 653,323     | 2,099,419   |
| Net income                                   | 38,659      | 22,715      | 1,376       | 90,078      | 152,828     |

Earnings per share:

|         |        |        |        |        |        |
|---------|--------|--------|--------|--------|--------|
| Basic   | \$0.80 | \$0.51 | \$0.03 | \$2.04 | \$3.37 |
| Diluted | 0.79   | 0.50   | 0.03   | 1.99   | 3.32   |

Earnings per share calculations for each fiscal quarter are based on the applicable weighted-average shares (a) outstanding for each period, and the sum of the earnings per share for the four fiscal quarters may not necessarily be equal to the full year earnings per share amount.

## NOTE 16 – SUBSEQUENT EVENT

On March 7, 2018, our Board of Directors authorized the repurchase of up to \$100.0 million of our common shares (“2018 Repurchase Program”). Pursuant to the 2018 Repurchase Program, we may repurchase shares in the open market and/or in privately negotiated transactions at our discretion, subject to market conditions and other factors. Common shares acquired through the 2018 Repurchase Program will be available to meet obligations under our equity compensation plans and for general corporate purposes. The 2018 Repurchase Program has no scheduled termination date and will be funded with cash and cash equivalents, cash generated from operations or, if needed, by drawing on the 2011 Credit Agreement.

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officers and Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), as of the end of the period covered by this report. Based on that evaluation, our Principal Executive Officers and Principal Financial Officer have each concluded that such disclosure controls and procedures were effective as of the end of the period covered by this report.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for us. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Management assessed the effectiveness of our internal control over financial reporting as of February 3, 2018. In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013 Framework). Based on this assessment, management, including our Principal Executive Officers and Principal Financial Officer, concluded that we maintained effective internal control over financial reporting as of February 3, 2018.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on our internal control over financial reporting. The report appears in the Financial Statements and Supplementary Data section of this Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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## Part III

## Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the captions “Proposal One: Election of Directors,” “Governance,” and “Stock Ownership” in the 2018 Proxy Statement, with respect to directors, shareholder nomination procedures, the code of ethics, the Audit Committee, our audit committee financial experts, and Section 16(a) beneficial ownership reporting compliance, is incorporated herein by reference in response to this item. The information contained in Part I of this Form 10-K under the caption “Supplemental Item. Executive Officers of the Registrant,” with respect to executive officers, is incorporated herein by reference in response to this item.

## Item 11. Executive Compensation

The information contained under the captions “Governance,” “Director Compensation,” and “Executive Compensation” in the 2018 Proxy Statement, with respect to corporate Compensation Committee interlocks and insider participation, director compensation, the Compensation Committee Report, and executive compensation, is incorporated herein by reference in response to this item.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

## Equity Compensation Plan Information

The following table summarizes information as of February 3, 2018, relating to our equity compensation plans pursuant to which our common shares may be issued.

| Plan Category (a)                                      | Number of securities to be issued upon exercise of outstanding options, warrants, and rights (#) | Weighted-average exercise price of outstanding options, warrants, and rights (\$) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#) |     |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Equity compensation plans approved by security holders | 1,544,185                                                                                        | (1)(2)39.04                                                                       | (3)5,506,484                                                                                                                                    | (4) |
| Equity compensation plans not approved by security     | —                                                                                                | —                                                                                 | —                                                                                                                                               |     |

holders

|       |           |       |              |
|-------|-----------|-------|--------------|
| Total | 1,544,185 | 39.04 | (3)5,506,484 |
|-------|-----------|-------|--------------|

(1) Includes stock options, PSUs, and restricted stock units granted under the 2017 LTIP, the 2012 LTIP, and the 2005 LTIP. In addition, we had 181,325 shares of unvested restricted stock outstanding under the 2012 LTIP.

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

2012 LTIP 163,126

2005 LTIP 117,500

(3) The weighted average exercise price only represents stock options and does not take into account the PSUs and the restricted stock units granted under the 2017 LTIP.

(4) The common shares available for issuance under the 2017 LTIP are limited to 5,506,484 common shares. There are no common shares available for issuance under any of the other shareholder-approved plans.

The 2005 LTIP expired on May 16, 2012. The 2012 LTIP was expired on May 24, 2017. The 2017 LTIP was approved in May 2017. See note 7 to the accompanying consolidated financial statements.

The information contained under the caption "Stock Ownership" in the 2018 Proxy Statement, with respect to the security ownership of certain beneficial owners and management, is incorporated herein by reference in response to this item.



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Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained under the caption “Governance - Determination of Director Independence” and “Governance - Related Person Transactions” in the 2018 Proxy Statement, with respect to the review of director independence and transactions with related persons, is incorporated herein by reference in response to this item.

Item 14. Principal Accounting Fees and Services

The information contained under the captions “Audit Committee Disclosure - Audit and Non-Audit Services Pre-Approval Policy” and “Audit Committee Disclosure - Fees Paid to Independent Registered Public Accounting Firm” in the 2018 Proxy Statement, with respect to the Audit Committee's pre-approval policies and procedures and the fees paid to Deloitte & Touche LLP, is incorporated herein by reference in response to this item.

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Part IV

Item 15. Exhibits, Financial Statement Schedules

Index to Consolidated Financial Statements, Financial Statement Schedules and Exhibits

(a) Documents filed as part of this report:

(1) Financial Statements

|                                                          |           |
|----------------------------------------------------------|-----------|
| Reports of Independent Registered Public Accounting Firm | <u>36</u> |
| Consolidated Statements of Operations                    | <u>38</u> |
| Consolidated Statements of Comprehensive Income          | <u>39</u> |
| Consolidated Balance Sheets                              | <u>40</u> |
| Consolidated Statements of Shareholders' Equity          | <u>41</u> |
| Consolidated Statements of Cash Flows                    | <u>42</u> |
| Notes to Consolidated Financial Statements               | <u>43</u> |

All other financial statements not listed in the preceding index are omitted because they are not required or are not applicable or because the information required to be set forth therein either was not material or is included in the consolidated financial statements or notes thereto.

(2) Financial Statement Schedules

All schedules are omitted because they are not required or are not applicable or because the information required to be set forth therein either was not material or is included in the consolidated financial statements or notes thereto.

(3) Exhibits. Exhibits marked with an asterisk (\*) are filed herewith. The Exhibit marked with two asterisks (\*\*) is furnished electronically with this Annual Report. Copies of exhibits will be furnished upon written request and payment of our reasonable expenses in furnishing the exhibits. Exhibits 10.1 through 10.42 are management contracts or compensatory plans or arrangements.

| Exhibit No. | Document                                                                                                                                                                                                |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>2</u>    | Agreement of Merger (incorporated herein by reference to Exhibit 2 to our Form 10-Q for the quarter ended May 5, 2001) (File No. 1-8897).                                                               |
| <u>3.1</u>  | Amended Articles of Incorporation (incorporated herein by reference to Exhibit 3(a) to our Form 10-Q for the quarter ended May 5, 2001) (File No. 1-8897).                                              |
| <u>3.2</u>  | Amendment to the Amended Articles of Incorporation of Big Lots, Inc. (incorporated herein by reference to Exhibit 3.1 to our Form 8-K dated May 27, 2010) (File No. 1-8897).                            |
| <u>3.3</u>  | Code of Regulations (incorporated herein by reference to Exhibit 3(b) to our Form 10-Q for the quarter ended May 5, 2001) (File No. 1-8897).                                                            |
| <u>4</u>    | Specimen Common Share Certificate (incorporated herein by reference to Exhibit 4(a) to our Form 10-K for the year ended February 2, 2002) (File No. 1-8897).                                            |
| <u>10.1</u> | Big Lots 2005 Long-Term Incentive Plan, as amended and restated effective May 27, 2010 (incorporated herein by reference to Exhibit 4.4 to our Form S-8 dated March 3, 2011) (File No. 1-8897).         |
| <u>10.2</u> | Form of Big Lots 2005 Long-Term Incentive Plan Non-Qualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.4 to our Form 8-K dated February 21, 2006) (File No. 1-8897). |
| <u>10.3</u> |                                                                                                                                                                                                         |

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Form of Big Lots 2005 Long-Term Incentive Plan Non-Qualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.3 to our Form 8-K dated March 4, 2009) (File No. 1-8897).

10.4 Form of Big Lots 2005 Long-Term Incentive Plan Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.4 to our Form 8-K dated March 4, 2009) (File No. 1-8897).

10.5 Big Lots 2012 Long-Term Incentive Plan, as amended and restated effective May 29, 2014 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated May 29, 2014).

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| Exhibit No.  | Document                                                                                                                                                                                                                                            |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>10.6</u>  | Form of Big Lots 2012 Long-Term Incentive Plan Non-Qualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated May 23, 2012) (File No. 1-8897).                                                  |
| <u>10.7</u>  | Form of Big Lots 2012 Long-Term Incentive Plan Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.3 to our Form 8-K dated May 23, 2012) (File No. 1-8897).                                                            |
| <u>10.8</u>  | Form of Big Lots 2012 Long-Term Incentive Plan Restricted Stock Retention Award Agreement (incorporated herein by reference to Exhibit 10.14 to our Form 10-K for the year ended February 2, 2013) (File No. 1-8897).                               |
| <u>10.9</u>  | Form of Big Lots 2012 Long-Term Incentive Plan Restricted Stock Award Agreement for Nonemployee Directors (incorporated herein by reference to Exhibit 10.4 to our Form 8-K dated May 23, 2012) (File No. 1-8897).                                  |
| <u>10.10</u> | Form of Big Lots 2012 Long-Term Incentive Plan Performance Share Units Award Agreement (incorporated herein by reference to Exhibit 10.9 to our Form 8-K dated April 29, 2013).                                                                     |
| <u>10.11</u> | Form of Big Lots 2012 Long-Term Incentive Plan Performance Share Units Award Agreement (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated March 4, 2015).                                                                      |
| <u>10.12</u> | Form of Big Lots 2012 Long-Term Incentive Plan Restricted Stock Units Award Agreement (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated March 4, 2015).                                                                       |
| <u>10.13</u> | Form of Big Lots 2012 Long-Term Incentive Plan Deferral Election Form and Deferred Stock Units Award Agreement for Non-Employee Directors (incorporated herein by reference to Exhibit 10.13 to our Form 10-K for the year ended January 28, 2017). |
| <u>10.14</u> | Form of Big Lots 2017 Long-Term Incentive Plan (incorporated herein by reference to Appendix A to our definitive proxy statement on Schedule 14A relating to the 2017 Annual Meeting of Shareholders filed April 11, 2017).                         |
| <u>10.15</u> | Form of Big Lots 2017 Long-Term Incentive Plan Restricted Stock Units Award Agreement (incorporated herein by reference to Exhibit 10.1 to our Form 10-Q for the quarter ended April 29, 2017).                                                     |
| <u>10.16</u> | Form of Big Lots 2017 Long-Term Incentive Plan Performance Share Units Award Agreement (incorporated herein by reference to Exhibit 10.2 to our Form 10-Q for the quarter ended April 29, 2017).                                                    |
| <u>10.17</u> | Form of Big Lots 2017 Long-Term Incentive Plan Deferral Election Form and Deferred Stock Units Award for Non-Employee Directors (incorporated herein by reference to Exhibit 10.1 to our Form 10-Q for the quarter ended October 28, 2017).         |
| <u>10.18</u> | Big Lots, Inc. Amended and Restated Director Stock Option Plan (incorporated by reference to Exhibit 10(c)(ii) to Consolidated (Delaware)'s Annual Report on Form 10-K for the fiscal year ended February 1, 1992) (File No. 1-8897).               |
| <u>10.19</u> | First Amendment to Big Lots, Inc. Amended and Restated Director Stock Option Plan, effective August 20, 2002 (incorporated herein by reference to Exhibit 10(d) to our Form 10-Q for the quarter ended August 3, 2002 (File No. 1-8897)).           |
| <u>10.20</u> | Amendment to Big Lots, Inc. Amended and Restated Director Stock Option Plan, effective March 5, 2008 (incorporated herein by reference to Exhibit 10.5 to our Form 10-Q for the quarter ended May 3, 2008) (File No. 1-8897).                       |
| <u>10.21</u> | Form of Option Award Agreement under the Big Lots, Inc. Amended and Restated Director Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated September 9, 2004) (File No. 1-8897).                               |
| <u>10.22</u> | Big Lots 2006 Bonus Plan, as amended and restated effective May 29, 2014 (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated May 29, 2014).                                                                                     |
| <u>10.23</u> | Big Lots Savings Plan (incorporated herein by reference to Exhibit 10.8 to our Form 10-K for the year ended January 29, 2005) (File No. 1-8897).                                                                                                    |
| <u>10.24</u> | Big Lots Supplemental Savings Plan, as amended and restated effective December 31, 2015 (incorporated herein by reference to Exhibit 10.25 to our Form 10-K for the year ended January 30, 2016).                                                   |

- 10.25 Big Lots Executive Benefit Plan (incorporated herein by reference to Exhibit 10(m) to our Form 10-K for the year ended January 31, 2004) (File No. 1-8897).
- 10.26 First Amendment to Big Lots Executive Benefit Plan (incorporated herein by reference to Exhibit 10.11 to our Form 10-Q for the quarter ended November 1, 2008) (File No. 1-8897).
- 10.27 Executive Employment Agreement with David J. Campisi (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated March 17, 2015).
- 10.28 Second Amended and Restated Employment Agreement with Lisa M. Bachmann (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated April 29, 2013).

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| Exhibit No.   | Document                                                                                                                                                                                                                                                                  |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>10.29</u>  | Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.12 to our Form 10-Q for the quarter ended November 1, 2008) (File No. 1-8897).                                                                                                          |
| <u>10.30</u>  | Form of Executive Severance Agreement (incorporated herein by reference to Exhibit 10.13 to our Form 10-Q for the quarter ended November 1, 2008) (File No. 1-8897).                                                                                                      |
| <u>10.31</u>  | Form of Senior Executive Severance Agreement (incorporated herein by reference to Exhibit 10.14 to our Form 10-Q for the quarter ended November 1, 2008) (File No. 1-8897).                                                                                               |
| <u>10.32</u>  | Big Lots Executive Severance Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated August 28, 2014).                                                                                                                                               |
| <u>10.33</u>  | Form of Big Lots Executive Severance Plan Acknowledgment and Agreement (incorporated by reference to Exhibit 10.2 to our Form 8-K dated August 28, 2014).                                                                                                                 |
| <u>10.34</u>  | Credit Agreement among Big Lots, Inc., Big Lots Stores, Inc. and Big Lots Canada, Inc., as borrowers, the Guarantors named therein, and the Banks named therein (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated July 22, 2011) (File No. 1-8897). |
| <u>10.35</u>  | First Amendment to Credit Agreement among Big Lots, Inc., Big Lots Stores, Inc. and Big Lots Canada, Inc., as borrowers, the Guarantors named therein, and the Banks named therein (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated May 30, 2013). |
| <u>10.36</u>  | Second Amendment to Credit Agreement among Big Lots, Inc., Big Lots Stores, Inc., as borrowers, the Guarantors named therein, and the Banks named therein (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated May 28, 2015).                          |
| <u>10.37</u>  | Security Agreement between Big Lots Stores, Inc. and Big Lots Capital, Inc. (incorporated herein by reference to Exhibit 10.2 to our Form 8-K dated October 29, 2004) (File No. 1-8897).                                                                                  |
| <u>10.38</u>  | Stock Purchase Agreement between KB Acquisition Corporation and Consolidated Stores Corporation (incorporated herein by reference to Exhibit 2(a) to our Form 10-Q for the quarter ended October 28, 2000) (File No. 1-8897).                                             |
| <u>10.39</u>  | Acquisition Agreement between Big Lots, Inc. and Liquidation World Inc. (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated May 26, 2011) (File No. 1-8897).                                                                                          |
| <u>10.40*</u> | AVDC Participation Agreement                                                                                                                                                                                                                                              |
| <u>10.41*</u> | AVDC Lease Agreement (Real Property)                                                                                                                                                                                                                                      |
| <u>10.42*</u> | AVDC Construction Agency Agreement                                                                                                                                                                                                                                        |
| <u>21*</u>    | Subsidiaries.                                                                                                                                                                                                                                                             |
| <u>23*</u>    | Consent of Deloitte & Touche LLP.                                                                                                                                                                                                                                         |
| <u>24*</u>    | Power of Attorney for Jeffrey P. Berger, James R. Chambers, Marla C. Gottschalk, Cynthia T. Jamison, Philip E. Mallott, Nancy A. Reardon, Wendy L. Schoppert, and Russell E. Solt.                                                                                        |
| <u>31.1*</u>  | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                       |
| <u>31.2*</u>  | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                       |
| <u>32.1*</u>  | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                       |
| <u>32.2*</u>  | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                       |
| <u>101**</u>  | XBRL Instance Document.                                                                                                                                                                                                                                                   |

Item 16. Form 10-K Summary

None.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 3<sup>rd</sup> day of April 2018.

BIG LOTS, INC.

By: /s/ Timothy A. Johnson  
Timothy A. Johnson  
Executive Vice President, Chief Administrative Officer  
and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 3<sup>rd</sup> day of April 2018.

By: /s/ Lisa M. Bachmann  
Lisa M. Bachmann  
Executive Vice President, Chief  
Merchandising and Operating Officer  
(Principal Executive Officer)

/s/ Timothy A. Johnson  
Timothy A. Johnson  
Executive Vice President, Chief Administrative Officer and Chief  
Financial Officer  
(Principal Executive Officer, Principal Financial Officer, Principal  
Accounting Officer and Duly Authorized Officer)

/s/ Jeffrey P. Berger \*  
Jeffrey P. Berger  
Director

/s/ Philip E. Mallott \*  
Philip E. Mallott  
Director

/s/ James R. Chambers \*  
James R. Chambers  
Director

/s/ Nancy A. Reardon \*  
Nancy A. Reardon  
Director

/s/ Marla C. Gottschalk \*  
Marla C. Gottschalk  
Director

/s/ Wendy L. Schoppert \*  
Wendy L. Schoppert  
Director

/s/ Cynthia T. Jamison \*  
Cynthia T. Jamison  
Director

/s/ Russell E. Solt \*  
Russell E. Solt  
Director

The above named Directors of the Registrant execute this report by Ronald A. Robins, Jr., their attorney-in-fact, \*pursuant to the power of attorney executed by the above-named Directors all in the capacities indicated and on the 7<sup>th</sup> day of March 2018, and filed herewith.

By: /s/ Ronald A. Robins, Jr.  
Ronald A. Robins, Jr.  
Attorney-in-Fact