

KIRKLAND'S, INC.
CONSOLIDATED BALANCE SHEETS

	February 3, 2018	January 28, 2017
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 80,156	\$ 63,937
Inventories, net ⁽¹⁾	81,255	73,191
Prepaid expenses and other current assets ⁽¹⁾	15,988	15,912
Total current assets	177,399	153,040
Property and equipment:		
Equipment	20,835	19,525
Furniture and fixtures	80,299	78,492
Leasehold improvements	119,272	109,494
Computer software and hardware	59,331	52,740
Projects in progress	7,685	5,520
Property and equipment, gross	287,422	265,771
Accumulated depreciation	(174,383)	(154,901)
Property and equipment, net	113,039	110,870
Deferred income taxes	2,216	1,198
Other assets	6,543	5,038
Total assets	\$ 299,197	\$ 270,146
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 45,602	\$ 32,890
Accounts payable to related party vendor	7,523	5,008
Income taxes payable	4,943	6,273
Accrued expenses	38,872	30,270
Total current liabilities	96,940	74,441
Deferred rent	53,303	52,656
Deferred income taxes	—	479
Other liabilities	8,193	8,757
Total liabilities	158,436	136,333
Commitments and contingencies (Note 8)	—	—
Shareholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued or outstanding at February 3, 2018, and January 28, 2017	—	—
Common stock, no par value, 100,000,000 shares authorized; 15,977,239 and 15,906,635 shares issued and outstanding at February 3, 2018, and January 28, 2017, respectively	167,501	165,245
Accumulated deficit	(26,740)	(31,432)
Total shareholders' equity	140,761	133,813
Total liabilities and shareholders' equity	\$ 299,197	\$ 270,146

⁽¹⁾ Refer to Note 1 for information about a reclassification of supplies inventory from inventories, net, to prepaid expenses and other current assets.

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

KIRKLAND'S, INC.
CONSOLIDATED STATEMENTS OF INCOME

	53 Weeks Ended February 3, 2018	52 Weeks Ended January 28, 2017	52 Weeks Ended January 30, 2016
(In thousands, except per share data)			
Net sales	\$ 634,117	\$ 594,328	\$ 561,807
Cost of sales ⁽¹⁾	374,935	351,276	324,136
Cost of sales related to merchandise purchased from related party vendor	51,646	40,560	35,170
Cost of sales	426,581	391,836	359,306
Gross profit	207,536	202,492	202,501
Operating expenses:			
Compensation and benefits	116,895	110,277	102,471
Other operating expenses	74,299	68,873	67,950
Depreciation (exclusive of depreciation included in cost of sales) ⁽¹⁾	6,990	6,343	5,889
Total operating expenses	198,184	185,493	176,310
Operating income	9,352	16,999	26,191
Interest expense	275	276	346
Other income, net	(739)	(252)	(252)
Income before income taxes	9,816	16,975	26,097
Income tax expense	4,520	5,929	9,524
Net income	\$ 5,296	\$ 11,046	\$ 16,573
Earnings per share:			
Basic	\$ 0.33	\$ 0.70	\$ 0.97
Diluted	\$ 0.33	\$ 0.68	\$ 0.94
Weighted average shares outstanding:			
Basic	15,973	15,859	17,131
Effect of dilutive common stock equivalents	193	286	438
Diluted	16,166	16,145	17,569
Dividends declared per common share outstanding	\$ —	\$ —	\$ 1.50

⁽¹⁾ Refer to Note 1 for information about a reclassification of supply-chain and store-related depreciation expense to cost of sales.

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KIRKLAND'S, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	53 Weeks Ended February 3, 2018	52 Weeks Ended January 28, 2017	52 Weeks Ended January 30, 2016
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 5,296	\$ 11,046	\$ 16,573
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property and equipment	27,150	25,322	22,182
Amortization of deferred rent	(8,147)	(5,779)	(5,260)
Amortization of debt issue costs	54	89	77
Loss on disposal of property and equipment	173	313	145
Stock-based compensation expense	2,134	3,194	3,773
Deferred income taxes	(1,497)	(2,242)	742
Changes in assets and liabilities:			
Inventories, net ⁽¹⁾	(8,064)	(7,137)	(11,846)
Prepaid expenses and other current assets ⁽¹⁾	(75)	1,462	(6,929)
Other noncurrent assets	(1,559)	(2,922)	155
Accounts payable	11,644	7,672	2,040
Accounts payable to related party vendor	2,515	2,750	181
Income taxes (refundable) payable	(1,331)	1,363	324
Accrued expenses and other current and noncurrent liabilities	16,832	16,795	10,993
Net cash provided by operating activities	45,125	51,926	33,150
Cash flows from investing activities:			
Proceeds from sales of property and equipment	—	4	—
Capital expenditures	(28,424)	(32,180)	(35,114)
Net cash used in investing activities	(28,424)	(32,176)	(35,114)
Cash flows from financing activities:			
Refinancing costs	—	(271)	—
Cash used in net share settlement of stock options and restricted stock	(206)	(263)	(2,029)
Employee stock purchases	328	369	354
Cash dividends paid to stockholders	—	—	(25,951)
Repurchase and retirement of common stock	(604)	—	(25,196)
Net cash used in financing activities	(482)	(165)	(52,822)
Cash and cash equivalents:			
Net increase (decrease)	16,219	19,585	(54,786)
Beginning of the year	63,937	44,352	99,138
End of the year	<u>\$ 80,156</u>	<u>\$ 63,937</u>	<u>\$ 44,352</u>
Supplemental cash flow information:			
Interest paid	<u>\$ 190</u>	<u>\$ 159</u>	<u>\$ 192</u>
Income taxes paid	<u>\$ 7,614</u>	<u>\$ 7,214</u>	<u>\$ 8,300</u>
Supplemental schedule of non-cash activities:			
Non-cash accruals for purchases of property and equipment	<u>\$ 2,427</u>	<u>\$ 1,359</u>	<u>\$ 2,572</u>

⁽¹⁾ Refer to Note 1 for information about a reclassification of supplies inventory from inventories, net, to prepaid expenses and other current assets.

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