

KIRKLAND'S, INC.
CONSOLIDATED BALANCE SHEETS

	February 2, 2019	February 3, 2018
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 57,946	\$ 80,156
Inventories, net	84,434	81,255
Prepaid expenses and other current assets	15,561	15,988
Total current assets	157,941	177,399
Property and equipment:		
Equipment	21,425	20,835
Furniture and fixtures	81,523	80,299
Leasehold improvements	126,784	119,272
Computer software and hardware	69,444	59,331
Projects in progress	8,344	7,685
Property and equipment, gross	307,520	287,422
Accumulated depreciation	(196,697)	(174,383)
Property and equipment, net	110,823	113,039
Deferred income taxes	1,703	2,216
Other assets	6,681	6,543
Total assets	\$ 277,148	\$ 299,197
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 40,004	\$ 45,602
Accounts payable to related party vendor	8,166	7,523
Income taxes payable	701	4,943
Accrued expenses	37,665	38,872
Total current liabilities	86,536	96,940
Deferred rent	51,871	53,303
Other liabilities	7,941	8,193
Total liabilities	146,348	158,436
Commitments and contingencies (Note 8)	—	—
Shareholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued or outstanding at February 2, 2019, and February 3, 2018	—	—
Common stock, no par value, 100,000,000 shares authorized; 14,504,824 and 15,977,239 shares issued and outstanding at February 2, 2019, and February 3, 2018, respectively	169,477	167,501
Accumulated deficit	(38,677)	(26,740)
Total shareholders' equity	130,800	140,761
Total liabilities and shareholders' equity	\$ 277,148	\$ 299,197

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

KIRKLAND'S, INC.
CONSOLIDATED STATEMENTS OF INCOME

	52 Weeks Ended February 2, 2019	53 Weeks Ended February 3, 2018	52 Weeks Ended January 28, 2017
(In thousands, except per share data)			
Net sales	\$ 647,071	\$ 634,117	\$ 594,328
Cost of sales	390,749	374,935	351,276
Cost of sales related to merchandise purchased from related party vendor	53,253	51,646	40,560
Cost of sales	444,002	426,581	391,836
Gross profit	203,069	207,536	202,492
Operating expenses:			
Compensation and benefits	116,272	116,895	110,277
Other operating expenses	74,682	74,299	68,873
Depreciation (exclusive of depreciation included in cost of sales)	7,234	6,990	6,343
Total operating expenses	198,188	198,184	185,493
Operating income	4,881	9,352	16,999
Interest expense	267	275	276
Other income	(1,197)	(739)	(252)
Income before income taxes	5,811	9,816	16,975
Income tax expense	2,031	4,520	5,929
Net income	\$ 3,780	\$ 5,296	\$ 11,046
Earnings per share:			
Basic	\$ 0.24	\$ 0.33	\$ 0.70
Diluted	\$ 0.24	\$ 0.33	\$ 0.68
Weighted average shares outstanding:			
Basic	15,445	15,973	15,859
Effect of dilutive common stock equivalents	121	193	286
Diluted	15,566	16,166	16,145

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KIRKLAND'S, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	52 Weeks Ended February 2, 2019	53 Weeks Ended February 3, 2018	52 Weeks Ended January 28, 2017
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 3,780	\$ 5,296	\$ 11,046
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property and equipment	29,453	27,150	25,322
Amortization of deferred rent	(9,222)	(8,147)	(5,779)
Amortization of debt issue costs	54	54	89
Loss on disposal of property and equipment	383	173	313
Stock-based compensation expense	2,015	2,134	3,194
Deferred income taxes	513	(1,497)	(2,242)
Changes in assets and liabilities:			
Inventories, net	(3,179)	(8,064)	(7,137)
Prepaid expenses and other current assets	633	(75)	1,462
Other noncurrent assets	(192)	(1,559)	(2,922)
Accounts payable	(4,443)	11,644	7,672
Accounts payable to related party vendor	643	2,515	2,750
Income taxes (refundable) payable	(4,448)	(1,331)	1,363
Accrued expenses and other current and noncurrent liabilities	6,331	16,832	16,795
Net cash provided by operating activities	<u>22,321</u>	<u>45,125</u>	<u>51,926</u>
Cash flows from investing activities:			
Proceeds from sales of property and equipment	—	—	4
Capital expenditures	(28,775)	(28,424)	(32,180)
Net cash used in investing activities	<u>(28,775)</u>	<u>(28,424)</u>	<u>(32,176)</u>
Cash flows from financing activities:			
Refinancing costs	—	—	(271)
Cash used in net share settlement of stock options and restricted stock	(382)	(206)	(263)
Proceeds received from employee stock option exercises	23	—	—
Employee stock purchases	320	328	369
Repurchase and retirement of common stock	(15,717)	(604)	—
Net cash used in financing activities	<u>(15,756)</u>	<u>(482)</u>	<u>(165)</u>
Cash and cash equivalents:			
Net (decrease) increase	(22,210)	16,219	19,585
Beginning of the year	80,156	63,937	44,352
End of the year	<u>\$ 57,946</u>	<u>\$ 80,156</u>	<u>\$ 63,937</u>
Supplemental cash flow information:			
Interest paid	<u>\$ 190</u>	<u>\$ 190</u>	<u>\$ 159</u>
Income taxes paid	<u>\$ 5,966</u>	<u>\$ 7,614</u>	<u>\$ 7,214</u>
Supplemental schedule of non-cash activities:			
Non-cash accruals for purchases of property and equipment	<u>\$ 1,272</u>	<u>\$ 2,427</u>	<u>\$ 1,359</u>

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