

KIRKLAND'S, INC.
CONSOLIDATED BALANCE SHEETS

	February 1, 2020	February 2, 2019
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,132	\$ 57,946
Inventories, net	94,674	84,434
Prepaid expenses and other current assets	6,705	15,561
Total current assets	131,511	157,941
Property and equipment:		
Equipment	21,390	21,425
Furniture and fixtures	80,622	81,523
Leasehold improvements	123,022	126,784
Computer software and hardware	73,984	69,444
Projects in progress	6,862	8,344
Property and equipment, gross	305,880	307,520
Accumulated depreciation	(223,017)	(196,697)
Property and equipment, net	82,863	110,823
Operating lease right-of-use assets	200,067	—
Deferred income taxes	1,525	1,703
Other assets	6,476	6,681
Total assets	\$ 422,442	\$ 277,148
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 59,513	\$ 40,004
Accounts payable to related party vendor	—	8,166
Accrued expenses	28,773	38,366
Operating lease liabilities	53,154	—
Total current liabilities	141,440	86,536
Deferred rent	—	51,871
Operating lease liabilities	195,736	—
Other liabilities	8,311	7,941
Total liabilities	345,487	146,348
Commitments and contingencies (Note 8)	—	—
Shareholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued or outstanding at February 1, 2020, and February 2, 2019	—	—
Common stock, no par value, 100,000,000 shares authorized; 13,955,826 and 14,504,824 shares issued and outstanding at February 1, 2020, and February 2, 2019, respectively	172,885	169,477
Accumulated deficit	(95,930)	(38,677)
Total shareholders' equity	76,955	130,800
Total liabilities and shareholders' equity	\$ 422,442	\$ 277,148

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

KIRKLAND'S, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	52 Weeks Ended February 1, 2020	52 Weeks Ended February 2, 2019	53 Weeks Ended February 3, 2018
(In thousands, except per share data)			
Net sales	\$ 603,880	\$ 647,071	\$ 634,117
Cost of sales	423,697	390,749	374,935
Cost of sales related to merchandise purchased from related party vendor	14,749	53,253	51,646
Cost of sales	438,446	444,002	426,581
Gross profit	165,434	203,069	207,536
Operating expenses:			
Compensation and benefits	116,895	116,272	116,895
Other operating expenses	75,647	74,682	74,299
Depreciation (exclusive of depreciation included in cost of sales)	6,704	7,234	6,990
Asset impairment	19,229	—	—
Total operating expenses	218,475	198,188	198,184
Operating (loss) income	(53,041)	4,881	9,352
Interest expense	457	267	275
Other income	(911)	(1,197)	(739)
(Loss) income before income taxes	(52,587)	5,811	9,816
Income tax expense	678	2,031	4,520
Net (loss) income	<u>\$ (53,265)</u>	<u>\$ 3,780</u>	<u>\$ 5,296</u>
(Loss) earnings per share:			
Basic	<u>\$ (3.79)</u>	<u>\$ 0.24</u>	<u>\$ 0.33</u>
Diluted	<u>\$ (3.79)</u>	<u>\$ 0.24</u>	<u>\$ 0.33</u>
Weighted average shares outstanding:			
Basic	14,070	15,445	15,973
Effect of dilutive common stock equivalents	—	121	193
Diluted	<u>14,070</u>	<u>15,566</u>	<u>16,166</u>

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KIRKLAND'S, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock			Total Stockholders' Equity
	Shares	Amount	Accumulated Deficit	
	(In thousands, except share data)			
Balance at January 28, 2017	15,906,635	\$ 165,245	\$ (31,432)	\$ 133,813
Employee stock purchases	34,963	328	—	328
Exercise of stock options	28,346	—	—	—
Restricted stock issued	103,479	—	—	—
Net share settlement of stock options and restricted stock	(44,261)	(206)	—	(206)
Stock-based compensation expense	—	2,134	—	2,134
Repurchase and retirement of common stock	(51,923)	—	(604)	(604)
Net income	—	—	5,296	5,296
Balance at February 3, 2018	15,977,239	167,501	(26,740)	140,761
Employee stock purchases	37,128	320	—	320
Exercise of stock options	177,526	23	—	23
Restricted stock issued	110,400	—	—	—
Net share settlement of stock options and restricted stock	(146,721)	(382)	—	(382)
Stock-based compensation expense	—	2,015	—	2,015
Repurchase and retirement of common stock	(1,650,748)	—	(15,717)	(15,717)
Net income	—	—	3,780	3,780
Balance at February 2, 2019	14,504,824	169,477	(38,677)	130,800
Cumulative effect of change in accounting principle	—	—	(331)	(331)
Employee stock purchases	104,160	241	—	241
Restricted stock issued	197,090	—	—	—
Net share settlement of restricted stock	(42,973)	(87)	—	(87)
Stock-based compensation expense	—	3,254	—	3,254
Repurchase and retirement of common stock	(807,275)	—	(3,657)	(3,657)
Net loss	—	—	(53,265)	(53,265)
Balance at February 1, 2020	13,955,826	\$ 172,885	\$ (95,930)	\$ 76,955

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KIRKLAND'S, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	52 Weeks Ended February 1, 2020	52 Weeks Ended February 2, 2019	53 Weeks Ended February 3, 2018
	(In thousands)		
Cash flows from operating activities:			
Net (loss) income	\$ (53,265)	\$ 3,780	\$ 5,296
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation of property and equipment	27,720	29,453	27,150
Amortization of debt issuance costs	56	54	54
Impairment charge	19,229	—	—
Cumulative effect of change in accounting principle	(331)	—	—
Loss on disposal of property and equipment	200	383	173
Stock-based compensation expense	3,254	2,015	2,134
Deferred income taxes	178	513	(1,497)
Changes in assets and liabilities:			
Inventories, net	(10,240)	(3,179)	(8,064)
Prepaid expenses and other current assets	3,851	633	(75)
Accounts payable	18,928	(4,443)	11,644
Accounts payable to related party vendor	(8,166)	643	2,515
Accrued expenses	1,666	(1,592)	7,670
Income taxes (refundable) payable	(704)	(4,448)	(1,331)
Operating lease assets and liabilities	(10,645)	(1,047)	1,579
Other assets and liabilities	—	(444)	(2,123)
Net cash (used in) provided by operating activities	(8,269)	22,321	45,125
Cash flows from investing activities:			
Capital expenditures	(15,680)	(28,775)	(28,424)
Net cash used in investing activities	(15,680)	(28,775)	(28,424)
Cash flows from financing activities:			
Borrowings on revolving line of credit	25,000	—	—
Repayments on revolving line of credit	(25,000)	—	—
Debt issuance costs	(362)	—	—
Cash used in net share settlement of stock options and restricted stock	(87)	(382)	(206)
Proceeds received from employee stock option exercises	—	23	—
Employee stock purchases	241	320	328
Repurchase and retirement of common stock	(3,657)	(15,717)	(604)
Net cash used in financing activities	(3,865)	(15,756)	(482)
Cash and cash equivalents:			
Net (decrease) increase	(27,814)	(22,210)	16,219
Beginning of the year	57,946	80,156	63,937
End of the year	\$ 30,132	\$ 57,946	\$ 80,156
Supplemental cash flow information:			
Interest paid	\$ 377	\$ 190	\$ 190
Income taxes paid	1,091	5,966	7,614
Supplemental schedule of non-cash activities:			
Non-cash accruals for purchases of property and equipment	\$ 1,853	\$ 1,272	\$ 2,427
Operating lease assets and liabilities recognized upon adoption of ASC 842	295,240	—	—
Increase of operating lease liabilities from new or modified leases	18,922	—	—

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