

KIRKLANDS INC  
Form 8-K  
December 11, 2003

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 4, 2003

**KIRKLAND S, INC.**

(Exact Name of Registrant as Specified in Charter)

**TENNESSEE**  
(State or Other Jurisdiction  
of Incorporation or  
Organization)

**000-49885**  
(Commission  
file  
number)

**62-1287151**  
(I.R.S. Employer  
Identification  
Number)

**805 NORTH PARKWAY**  
**JACKSON, TENNESSEE 38305**  
(Address of principal executive offices)

**(731) 668-2444**  
(Registrant's telephone number, including area code)

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**Item 12. Results of Operations and Financial Condition.**

On December 4, 2003, Kirkland s, Inc. (the Company ) issued a press release reporting financial results for the 13-week and 39-week periods ended November 1, 2003 (the Press Release ). A copy of the Press Release is attached hereto as Annex 1 and is incorporated by reference into this Item 12.

The Press Release included one or more non-GAAP financial measures within the meaning of the Securities and Exchange Commission s Regulation G. With respect to each such non-GAAP financial measure, the Company has disclosed in the press release the most directly comparable financial measure calculated and presented in accordance with generally accepted accounting principles ( GAAP ) and has provided a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

These non-GAAP financial measures have been presented because management uses this information in monitoring and evaluating the Company s on-going financial results and trends and believes that as a result, this information will be useful to investors. The disclosure in this Form 8-K of any financial information shall not constitute an admission that such information is material.

**Signatures**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

KIRKLAND S, INC.

Date: December 8, 2003

By: /s/ Robert E. Alderson

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**Robert E. Alderson**  
**President and Chief Executive Officer**

Contact: Rennie Faulkner  
Executive Vice President & CFO  
(731) 668-2444

KIRKLAND S REPORTS THIRD QUARTER RESULTS

JACKSON, Tenn. (December 4, 2003) Kirkland s, Inc. (NASDAQ/NM: KIRK) today reported financial results for the 13-week and 39-week periods ended November 1, 2003.

Net sales for the 13 weeks ended November 1, 2003, increased 12.2% to \$84.1 million from \$74.9 million for the 13 weeks ended November 2, 2002. Comparable store sales for the third quarter of 2003 increased 2.7%. The Company s comparable store sales increased 9.2% for the third quarter of 2002. Income for the third quarter of fiscal 2003, before taking into account a one-time charge related to the termination of the Company s current warehouse leases in connection with the lease of a new distribution center, was \$1.9 million, or \$0.10 per diluted share, compared with net income of \$1.2 million, or \$0.06 per diluted share, for the prior-year period. The one-time charge amounted to \$1.1 million, or \$0.03 per diluted share after tax. Including the one-time charge, the Company reported net income of \$1.2 million, or \$0.06 per diluted share, for the third quarter of fiscal 2003.

Net sales for the 39 weeks ended November 1, 2003, increased 9.6% to \$236.4 million from \$215.8 million for the 39 weeks ended November 2, 2002. Comparable store sales for the first 39 weeks of 2003 increased 2.2%. The Company s comparable store sales increased 14.4% for the first 39 weeks of 2002. Income for the first 39 weeks of fiscal 2003, before the one-time charge, was \$3.8 million, or \$0.19 per diluted share, compared with pro forma income of \$5.6 million, or \$0.29 per diluted share, for the prior-year period. For the 39 weeks ended November 2, 2002, the Company reported a net loss allocable to common stock of \$3.6 million, or \$0.29 per diluted share. Including the one-time charge, the Company reported net income of \$3.1 million, or \$0.16 per diluted share, for the first 39 weeks of fiscal 2003.

Robert E. Alderson, Kirkland s President and Chief Executive Officer, said, We were pleased to post solid earnings results for the third quarter. Sales and gross margin improved during the quarter, and we continued to keep a close eye on operating expenses. Inventories ended the quarter on plan, and we entered the fourth quarter positioned well from a merchandising standpoint. Other highlights of the quarter included significant new store activity and continued progress toward our goal of moving into a new leased distribution center in the second quarter of fiscal 2004.

Kirkland s opened 21 new stores in the third quarter of 2003 and has opened three new stores to date in the fourth quarter, bringing the total number of new stores opened in fiscal 2003 to 42 stores. Including two stores expected to close in the fourth quarter, Kirkland s will have added a net 31 stores in fiscal 2003, representing a 12.4% increase in the store base over the prior year. The Company s long-term target for annual growth in the store base is 15% to 18%.

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#### Fourth Quarter Outlook

The Company issued guidance for the fourth quarter ending January 31, 2004. For the fourth quarter, the Company expects to report net income of \$0.81 to \$0.86 per diluted share, compared with \$0.71 per diluted share in the prior-year period. Net sales are expected to be \$137 million to \$140 million, with comparable store sales expected to be relatively flat when compared with the prior-year period. Based on this outlook for the fourth quarter, the Company now expects to report earnings for fiscal 2003 in a range of \$1.00-\$1.05 per diluted share, slightly below the Company's previous guidance of \$1.02-\$1.07 per diluted share, before taking into account the one-time lease termination charge.

Mr. Alderson commented, "Our third quarter results were encouraging, but our fourth quarter outlook remains cautious. We previously noted a sales slowdown in the final two weeks of October, and sales have trended below our expectations through the first four weeks of the fourth quarter. Consistent with recent years, the fourth quarter retail environment is again characterized by heavy promotional activity. We are dedicated to producing good sales results, but we intend to focus primarily on maximizing earnings in this environment. As the quarter progresses, we are prepared for the surge in business that historically comes in the final ten days before Christmas. We have better inventory levels than in years past, which we believe will position us well for profitable sales in December and January."

#### Investor Conference Call and Web Simulcast

Kirkland's will conduct a conference call on December 5, 2003, at 10:00 a.m. EST to discuss the third quarter fiscal 2003 earnings release and other Company developments, including the outlook for the remainder of fiscal 2003. The number to call for this interactive teleconference is (913) 981-5508. A replay of the conference call will be available until December 12, 2003, by dialing (719) 457-0820 and entering the passcode, 550025.

Kirkland's will also host a live broadcast of its conference call on December 5, 2003, at 10:00 a.m. EST online at the Company's website, [www.kirklands.com](http://www.kirklands.com), as well as [www.firstcallevents.com/service/ajwz393216300gf12.html](http://www.firstcallevents.com/service/ajwz393216300gf12.html). The webcast replay will follow shortly after the call and will continue until December 19, 2003.

Kirkland's, Inc. was founded in 1966 and is a leading specialty retailer of home decor in the United States. Although originally focused in the Southeast, the Company has grown beyond that region and currently operates 282 stores in 34 states. The Company's stores present a broad selection of distinctive merchandise, including framed art, mirrors, candles, lamps, picture frames, accent rugs, garden accessories and artificial floral products. The Company's stores also offer an extensive assortment of holiday merchandise, as well as items carried throughout the year suitable for giving as gifts. More information can be found at [www.kirklands.com](http://www.kirklands.com).

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Kirkland's reports net income and earnings per diluted share in accordance with generally accepted accounting principles (GAAP) and additionally on a non-GAAP basis to exclude certain effects of the Company's July 10, 2002, initial public offering and a one-time lease termination charge that occurred in the third quarter of fiscal 2003. For a description of these adjustments, please refer to the "Reconciliation of Non-GAAP Financial Measures" which is included as part of this release.

Except for historical information contained herein, the statements in this release are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which may cause Kirkland's actual results in future periods to differ materially from forecasted results. Those risks and uncertainties include, among other things, the competitive environment in the home decor industry in general and in Kirkland's specific market areas, inflation, product availability and growth opportunities, seasonal fluctuations, and economic conditions in general. Those and other risks are more fully described in Kirkland's filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K filed on May 1, 2003. Kirkland disclaims any obligation to update any such factors or to publicly announce results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

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KIRKLAND S, INC.  
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (dollars in thousands, except per share amounts)

|  | 13 Weeks Ended  |                 |
|--|-----------------|-----------------|
|  | Nov. 1,<br>2003 | Nov. 2,<br>2002 |
| Net sales  | \$84,052        | \$74,903        |
| Cost of sales                                      | 56,283          | 50,222          |
|  | 27,769          | 24,681          |
| Operating expenses:                                |                 |                 |
| Other operating expenses                           | 22,659          | 20,076          |
| Lease termination charge                           | 1,053           |                 |
| Depreciation and amortization                      | 1,804           | 1,623           |
| Non-cash stock compensation charge                 | 68              | 70              |
|  | 2,185           | 2,912           |
| Interest expense:                                  |                 |                 |
| Senior, subordinated and other notes payable       | 152             | 462             |
| Amortization of debt issue costs                   | 53              | 77              |
| Loss on early extinguishment of long-term debt (a) |                 | 325             |
| Interest income                                    | (8)             | (5)             |
| Other expense (income), net                        | (35)            | (47)            |
|  | 2,023           | 2,100           |
| Income tax provision                               | 799             | 860             |
|  | \$ 1,224        | \$ 1,240        |
| Earnings per share:                                |                 |                 |
| Basic  | \$ 0.06         | \$ 0.07         |
| Diluted  | \$ 0.06         | \$ 0.06         |
| Shares used to calculate earnings per share:       |                 |                 |
| Basic  | 19,108          | 18,874          |
| Diluted  | 19,559          | 19,538          |

- (a) As previously disclosed in our public filings, the adoption in 2003 of the provisions of Statement of Financial Accounting Standards No. 145 required the loss on the early extinguishment of long-term debt recorded in the third quarter of fiscal 2002 to be reclassified from an extraordinary item to interest expense in the 2002 consolidated statement of operations.

KIRKLAND S, INC.  
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (dollars in thousands, except per share amounts)

|   | GAAP            |                 | Pro Forma*      |
|---|-----------------|-----------------|-----------------|
|   | 39 Weeks Ended  |                 | 39 Weeks Ended  |
|   | Nov. 1,<br>2003 | Nov. 2,<br>2002 | Nov. 2,<br>2002 |
| Net sales   | \$236,440       | \$215,804       | \$215,804       |
| Cost of sales   | 161,653         | 143,209         | 143,209         |
| Gross profit  | 74,787          | 72,595          | 72,595          |
| Operating expenses:   |                 |                 |                 |
| Other operating expenses  | 62,656          | 55,873          | 55,873          |
| Lease termination charge  | 1,053           |                 |                 |
| Depreciation and amortization   | 5,304           | 4,907           | 4,907           |
| Non-cash stock compensation charge  | 202             | 2,509           | 210             |
| Operating income  | 5,572           | 9,306           | 11,605          |
| Interest expense:   |                 |                 |                 |
| Senior, subordinated and other notes payable                                | 376             | 3,195           | 1,680           |
| Class C Preferred Stock   |                 | 1,134           |                 |
| Amortization of debt issue costs  | 158             | 884             | 243             |
| Loss on early extinguishment of long-term debt (a)                          |                 | 325             | 325             |
| Inducement charge on exchange of Class C Preferred Stock                    |                 | 554             |                 |
| Interest income   | (19)            | (84)            | (84)            |
| Other expense (income), net   | (110)           | (77)            | (77)            |
| Income before income taxes  | 5,167           | 3,375           | 9,518           |
| Income tax provision  | 2,041           | 1,384           | 3,901           |
| Income before accretion of redeemable preferred stock and dividends accrued | 3,126           | 1,991           | 5,617           |
| Accretion of redeemable preferred stock and dividends accrued               |                 | 5,626           |                 |
| Net income allocable to common stock  | \$ 3,126        | \$ (3,635)      | \$ 5,617        |
| Earnings per share:   |                 |                 |                 |
| Basic   | \$ 0.16         | \$ (0.29)       | \$ 0.30         |
| Diluted   | \$ 0.16         | \$ (0.29)       | \$ 0.29         |
| Shares used to calculate earnings per share:                                |                 |                 |                 |
| Basic   | 19,017          | 12,341          | 18,828          |
| Diluted   | 19,538          | 12,341          | 19,524          |



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\* See Reconciliation of non-GAAP Financial Measures

- (a) As previously disclosed in our public filings, the adoption in 2003 of the provisions of Statement of Financial Accounting Standards No. 145 required the loss on the early extinguishment of long-term debt recorded in the third quarter of fiscal 2002 to be reclassified from an extraordinary item to interest expense in the 2002 consolidated statement of operations.
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KIRKLAND S, INC.  
 UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS  
 (dollars in thousands)

|   | Nov. 1,<br>2003 | Feb. 1,<br>2003 |
|---|-----------------|-----------------|
| <b>ASSETS</b>                               |                 |                 |
| Current assets:                             |                 |                 |
| Cash and cash equivalents                   | \$ 3,110        | \$ 4,244        |
| Inventories                                 | 52,657          | 39,472          |
| Other current assets                        | 10,995          | 5,957           |
|   | 66,762          | 49,673          |
| Property and equipment, net                 | 31,310          | 25,175          |
| Other long-term assets                      | 4,052           | 4,210           |
|   | \$ 102,124      | \$ 79,058       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                 |                 |
| Revolving line of credit                    | 13,099          |                 |
| Accounts payable                            | 27,773          | 17,594          |
| Other current liabilities                   | 14,499          | 19,572          |
|   | 55,371          | 37,166          |
| Other long-term liabilities                 | 2,752           | 2,735           |
|   | 58,123          | 39,901          |
| Net shareholders' equity                    | 44,001          | 39,157          |
|   | \$ 102,124      | \$ 79,058       |

KIRKLAND S, INC.  
 RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

In addition to reporting in accordance with generally accepted accounting principles (GAAP), we have reported our operating results on a non-GAAP basis to exclude certain effects of our July 10, 2002 initial public offering and the impact of a one-time lease termination charge taken during the third quarter of fiscal 2003. This non-GAAP information is used internally to evaluate our performance without regard to the non-recurring financial effects of these two events. We believe that this presentation provides investors with additional insight into our operating results.

## Pro Forma Income and Earnings Per Share for the 39 Weeks Ended November 2, 2002

Pro forma income is prepared on a basis to exclude certain effects of our initial public offering. The pro forma figures give effect to the initial public offering as though it took place at the beginning of the period presented. The following sets forth the reconciliation of pro forma income and pro forma earnings per share to GAAP net income and GAAP earnings per share for the 39 weeks ended November 2, 2002 (in thousands, except per share data):

|  |                   |
|--|-------------------|
| Pro forma income   | \$ 5,617          |
| Interest on debt retired in IPO  | (3,203)           |
| Non-recurring, non-cash stock compensation charges   | (2,299)           |
| Difference in debt issue cost amortization due to May 2002 refinancing                                     | (641)             |
| Accretion of redeemable preferred stock and dividends accrued on classes of preferred stock retired in IPO | (5,626)           |
| Estimated tax effect using effective tax rate  | 2,517             |
|  | <u>          </u> |
| GAAP net income  | \$ (3,635)        |
|  | <u>          </u> |
| Diluted weighted average shares outstanding pro forma  | 19,524            |
| New shares issued in IPO   | (2,850)           |
| Exercise of common stock warrants at IPO   | (1,213)           |
| Exchange of Class C Preferred Stock for common stock at IPO  | (328)             |
| Conversion of Class A, Class B and Class D Preferred Stock at IPO  | (2,437)           |
| Repurchase of common stock at IPO  | 341               |
| Dilution from stock options  | (696)             |
|  | <u>          </u> |
| Diluted weighted average shares outstanding GAAP   | 12,341            |
|  | <u>          </u> |
| Pro forma earnings per diluted share   | \$ 0.29           |
|  | <u>          </u> |
| GAAP earnings per diluted share  | \$ (0.29)         |
|  | <u>          </u> |

## Income Before Lease Termination Charge

The following sets forth the reconciliation of income and diluted earnings per share before lease termination charge to GAAP net income and GAAP diluted earnings per share (dollars in thousands, except per share data):

|  | <b>13 Weeks<br/>Ended<br/>Nov. 1,<br/>2003</b> | <b>39 Weeks<br/>Ended<br/>Nov. 1,<br/>2003</b> |
|--|--|--|
| Income before lease termination charge                     | \$ 1,861                                       | \$ 3,763                                       |
| Diluted earnings per share before lease termination charge | \$ 0.10  | \$ 0.19  |
| Lease termination charge                                   | 1,053  | 1,053  |
| Tax effect using effective rate                            | (416)  | (416)  |
| GAAP net income  | \$ 1,224                                       | \$ 3,126                                       |
| GAAP diluted earnings per share                            | \$ 0.06  | \$ 0.16  |

## Forecasted Diluted Earnings Per Share

The following sets forth the reconciliation of forecasted diluted earnings per share before lease termination charge to forecasted GAAP diluted earnings per share:

|   | <b>Fiscal Year Ending<br/>Jan. 31,<br/>2004</b> |
|---|---|
| Forecasted diluted earnings per share before lease termination charge | \$ 1.00 - \$1.05                                |
| Effect of lease termination charge (on a per share basis, after tax)  | \$ 0.03   |
| Forecasted GAAP diluted earnings per share                            | \$ 0.97 - \$1.02                                |

-END-